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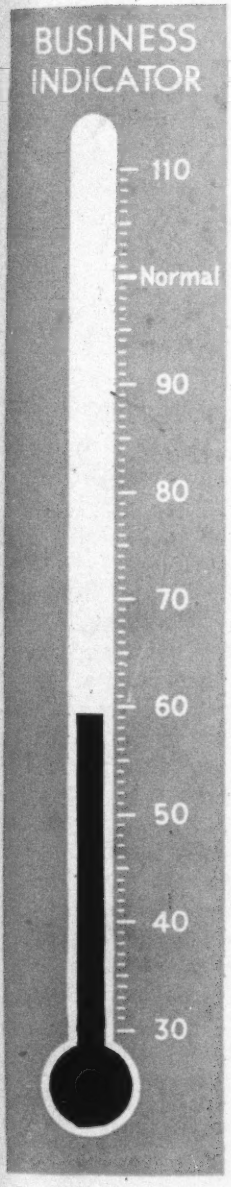
THE BUSINESS WEEK



The level of industrial and commercial activity is still slowly subsiding, but a belated and possibly brisk spring spurt is still expected as soon as the effect of the Administration's financial measures is felt and low-price automobile production gets under way . . . . Steel and electric power output are still persistently depressed by delayed automotive demand, problematic price policies and unseasonable weather. A mild revival of rail demand and strengthening in second-quarter steel quotations are slightly encouraging indications that some seasonal increase in steel activity will not be lacking, though unusually late . . . . Building contract figures for the first half of February are more hopeful than was expected . . . . Merchandise carloadings, commodity prices, employment as yet show no response to sanguine security market movements or the slight easing of the credit strain indicated in slackened hoarding, diminished member bank liquidation and the first upturn in commercial loans for many months . . . . Although European conditions continue in a delicate balance which may be upset at any time by approaching elections, League and reparations conferences, the domestic picture appears to offer prospects of at least temporary stabilization and improvement during the next quarter, with a possibility of slow progress toward reconstruction from that point on.

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McCASKEY SYSTEMS *for* COST CONTROL

THE BUSINESS WEEK (with which is combined The Magazine of Business) March 2, 1932. No. 130. Published weekly by McGraw-Hill Publishing Company, Inc., 330 West 42d Street, New York, N. Y. James H. McGraw, Chairman of the Board; Malcolm Muir, President; James H. McGraw, Jr., Vice-President & Treasurer; C. H. Thompson, Secretary. $7.50 per year, in U.S.A. and possessions; $10.00 or £2.10s. per year in all foreign countries. 20c. per copy. Entered as second-class matter February 15, 1930, at the Post Office at New York, N.Y., under the act of March 3, 1879. Printed in U.S.A. Copyright 1932 by McGraw-Hill Publishing Company, Inc.

This Business Week:

Finance

The Federal Reserve, after a month's hesitation, has lowered the New York discount rate from 3½% to 3%, thus actively joins the fight against deflation. Lined up at this decisive moment, are the Reserve (now freed of shackles by the Glass-Steagall bill), the Reconstruction Corp., the Federal Farm Loan system, and the anti-hoarding campaign (already showing results). The Big Push is on. Watch now for open market operations by the Reserve. *(p. 41)*

A survey of industries covered by McGraw-Hill publications reveals many needs and uses for the long-term credit which is the intended result of Washington's program for short-term expansion. Basic need of the basic industries is capital, capital to replace obsolete equipment with modern machines that will help to restore lost profits at present low prices; capital for refunding, to lift the financial burdens which cramp business and business men; capital for construction; for new projects; working capital. *(p. 5)*

Wall Street took a shot at the bears, this week. The new Stock Exchange ruling requiring written permission to use borrowed stock on the short side was a blank cartridge, a salute—as it were—to Congress. But it satisfied the bear hunters, probably forestalled legislative action. *(p. 7)*

Marketing

Woolworth's activities, like Ford's, have an effect beyond those directly concerned. The first and foremost 5-&-10's decision to get its future growth through an expanded price range (now it's the 5-&-20) is likewise an expansion of competition sure to be felt, for better or worse, by all who make or sell consumer merchandise up to 30c. *(p. 9)*

Tire dealers say the manufacturers should hand them the whole replacement trade, and are organizing to force a showdown on chain and mail-order competition. Many makers say the dealers had first chance at this business, were simply out-smarted by the new competition, should get down to selling. Other makers are betting on the dealer, showing him how to play for profit. *(p. 10)*

Fifth Avenue has felt the depression, of course, but the real purveyors to the really wealthy are carrying on without bargain sales. *(p. 12)*

Textiles

Stabilization is taken seriously in this industry, perhaps because its need is so immediate and so obvious. Cotton mills are effectively curtailing production; silk manufacturers are curbing trade evils; even rayon makers, after 2 unsuccessful attempts at formal organization, are cooperating to guard standards. *(p. 28)*

Shell fire in Shanghai has had no repercussions as yet in American silk mills. Prices of this greatest import (coffee is its only rival) remain undisturbed. *(p. 29)*

Railroads

Lawyer Thom, for the roads, objects to the I.C.C.'s forcing of consolidation plans; Commissioner Eastman thinks there are more ways to make a merger than in the stock market, pointedly suggests holding companies —under I.C.C. auspices. *(p. 16)*

Railroaders watched with interest America's first rubber-tired rail car as it was put through its paces. Vastly improved over the original French conception, it ushers in a new type of steel construction. *(p. 18)*

Relief

Federal relief, defeated in the Senate, is not a dead issue. If the winter continues mild, and business visibly picks up, it may not need to be settled. But 2 cold nights in succession can dramatize necessity in the language of headlines which every Senator understands. *(p. 20)*

City by city, the pitiful inadequacy of present local relief reveals itself; 81 communities found their expenditures for 1931 were 4 times greater than for 1929. *(p. 21)*

Meanwhile, the Legion-Labor-Advertisers job drive goes into high gear to provide the best kind of relief. Results are two-fold: men are getting employment; people are getting employment conscious. *(p. 19)*

Economics II

This second in the series of notes on economics-in-action considers the effects of collapsed commodity prices on the superstructure of public and private debt. A growing appreciation of our dependence on these values is behind the various moves toward reinflation and higher prices. *(p. 24)*

Figures

Construction activity in the first half of February was better than expected, but other trade and industrial indexes continue to lag. *(p. 39)*

Foreign

Russia's first Five Year Plan was a desperate effort to lift the nation from the dark ages to a modern industrial level. The second "Piatiletka," details of which are now coming out of Moscow, is more conservative in its demands on the people, aims at the satisfaction of social needs. *(p. 32)*

Last minute cables from abroad indicate increasing concern over the trouble at Shanghai. In France, the Bourse is buoyant despite continuing industrial disintegration. In Germany, the bank reorganization has had no immediate good effect. Outside of Britain, there are no definitely encouraging developments. *(p. 35)*

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THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending February 27, 1932

If Industries Can Get Credit They Can—and Will—Use It

Survey helps answer question of whether emergency measures will be put to work to stimulate business

BASIC industries are watching the development of the Administration's credit expansion program with keen interest. They expect to be the eventual beneficiaries of that stimulus to business which—according to the program—is to come out of the activities of the Reconstruction Finance Corp., the Glass-Steagall relief prescription, and the drive against hoarding.

They are, of course, most immediately interested in the stimulus exerted on the bond market. The basic need of the basic industries is capital. Washington's moves are aimed primarily at short-term expansion. But if the short-term tonic takes sufficiently to quicken the circulation in the veins of commerce and overcome some of the sluggishness in the credit system, these industries are bound to find their needs met by improvement in the capital market.

Data for Doubters

They have a good many reasons for wanting to borrow money. Detailed needs differ from industry to industry but there is remarkable unanimity on the primary purposes to which new capital, loosened by emergency measures, can be profitably put. These are brought out in a survey of their own industries by McGraw-Hill magazines covering a wide range of big and little business. They furnish a fairly decisive answer to those who have been doubting whether industry would use more credit if it could get it.

First in the minds of industrial leaders comes the replacement of obsolescent machinery by new equipment that will do the same or a better job at a lower cost. *American Machinist* reports heavy inquiries to machine tool makers indicating that immediate buying will follow any easing of credit.

Second in importance is the desire for new capital for refunding purposes. Satisfaction of this will, in itself, bring no direct stimulus to bear on business. But, once they are relieved of some of the financial burdens by which they have long been bent down, some of these industrialists are going to see new lines of activity that make business; others who have already seen them but have had to hold off will be able to go ahead.

Industry is also calling for capital at many points for needed construction. There is considerable demand for seasonal working capital now woefully inadequate. Some consolidations will follow the provision of financing facilities. And there are new projects awaiting the release of new capital.

Reports by Industries

Individual reports expand on this summary.

For example, the 2 purposes for which new money is most needed in the process industries are listed by *Chemical and Metallurgical Engineering* as: (1) "the replacement of obsolete equipment in order to effect desirable and necessary economies"; (2) "the launching on a commercial scale of new projects for which research and development work is already completed." In normal times a bond issue or other expansion of capital structure would readily provide funds. For the past 2 years, that avenue has been blocked and expenditures for capital have had to come from earnings or surplus.

In the textile industry an easier credit situation means an opportunity to purchase new and improved equipment. Not only have companies been forced to postpone the replacement of worn-out machines, but they have been unable to capitalize on the many new developments in equipment in all branches of the industry. According to *Textile World*, development in design and operation of textile machinery has progressed far more rapidly during the last 5 years than during any similar period in our history. "Failure to utilize this progress has been due very largely to financial stringency."

There is a real need for credit in the electrical field. Electrical utilities are said to have about $500 millions in short-term loans extended by banks, all of which should be liquidated shortly. This credit, involving 30- to 90-day loans, is usually secured for construction and improvement work in anticipation of note or bond issues. And *Electrical World*, which makes this analysis, observes that the flotation of these issues has proved virtually impossible for some months in view of the status of the bond market. "Relief measures in this direction would enable the utilities to purchase equipment from manufacturers, hence the entire industry is concerned."

Seasonal Capital Needed

Food industries are hungry for bank credit, particularly those branches where production is seasonal, such as confectionery, chocolate, canning and fishing. Canners are specially in need of aid, *Food Industries* notes; their division has always been woefully underfinanced; for years, it has depended on hired money for much of its seasonal working capital. Price declines in 1931 subsequent to the beginning of packing operations wiped out the canners' chances of repaying their loans. The situation is particularly acute in the Middle West where the canners are dependent on Chicago bankers for operating capital. "Many must secure additional loans or cannot operate in 1932."

Manufacturers of power equipment

What Congress Did

The Senate:

Passed Glass-Steagall emergency banking bill.

Passed bill authorizing loan of $10 millions to agricultural credit corporations.

The House:

Adopted resolution to create committee to recommend economies in federal establishment.

see opportunities for new business behind any real relief in the credit situation. For example, they can point to municipalities that would install power plants if it were possible to finance them through bond programs, and cooperation with investment banks or by dealing with manufacturing firms which make a business of installing power machinery and taking their pay out of savings resulting from increased efficiency or economy in power supply. Of the latter, *Power* says, "they have of late found it impossible to finance themselves on this kind of business and, upon application to the banks, have generally been turned down." This publication also refers to cases in which plans have been prepared, specifications written and complete organization effected for the spending of a lot of money in power house work "just as soon as the executives in charge can satisfy themselves that the country is on the mend."

Can Break Construction Jam

In the general field of public construction, there is an opportunity and a strong demand for the use of a very large amount of credit. *Engineering News-Record* is alarmed at the extent of curtailment in construction which has resulted from the widespread denial of funds to municipalities and other governmental units. Though exact figures are not available, it is well known that many hundreds of millions of dollars of such construction have been postponed, slowed down or stopped for lack of money.

What easier credit will mean to the transportation industries has been vociferously explained by the railroads. *Transit Journal* reports that the rapid transit lines need refunding money. The upspringing bus companies buy vehicles and tools on credit. Bus and bus equipment manufacturers discount their paper through finance companies. Only in a few cases have car trusts been established. Established finance companies have accepted the credit of bus companies only on condition of sound financial structure. *Bus Transportation,* which has been studying the situation, believes that more credit needs to be given to the greater earning power of new vehicles, "for, in the majority of cases, new vehicles can pay their own way through savings in operation and by their ability to attract more traffic."

In still other fields the emphasis is primarily on the possibilities of using an improved credit situation to catch up with the procession of improved equipment. For coal producers *Coal Age* reports an obvious need for "modern machinery of demonstrated value." And throughout the whole range of factory production, *Factory & Industrial Management* and *Maintenance Engineering* see a lively interest in equipment modernization ready for translation into action once credit conditions warrant it.

International News

WHITNEY TELLS THEM—*The president of the New York Stock Exchange, appearing before the House Judiciary Committee, explains the value of short selling. Left to right, are Representatives La Guardia, Michner, Tucker (chairman of the sub-committee) Condon, Oliver, and Celler*

America Has Become World's Banking Leader

DESPITE the history-making contraction of bank credit in the United States during 1931, New York City banks became the world's largest for the first time in history. Figures recently made available show Chase National boasting $1,450 millions of deposits and National City $1,410 millions against the $1,200 millions listed by the British Midland Bank, for years the world's leader, and the $1,120 millions held by Barclay's.

Next in size in the order named are Lloyd's of Britain, Guaranty Trust of New York, Westminster of England, National Provincial of England, Continental Illinois Bank & Trust Co. of Chicago, and the Bank of America of California of San Francisco.

It is the fact that deposits are measured on a gold basis which account chiefly for the shift in position. Since the abandonment of the gold standard by Britain, sterling has depreciated about 28% in terms of gold.

Thus world banking leadership at the present time rests squarely upon the shoulders of the United States. The ability of the American banks to carry this responsibility has not yet been tested. But all proposals for severely restrictive legislation must consider this new factor.

Politics Now Favors General Sales Tax

THE possibility that a general sales tax may be imposed by the federal government in the place of sales taxes on selected articles has increased during the past week. Democratic sentiment in favor of this type of levy seems to be growing, and the Secretary of the Treasury has indicated a willingness to consider it.

Mr. Mills indicated a levy of 2% on manufacturers' sales, and expected to raise $600 millions by such an impost. He would prefer the selected taxes because of their greater ease and smaller expense of collection.

The Democrats, however, are faced with powerful opposition on every one of the articles selected by the Treasury for taxation. Almost the only alternative, since taxes must be increased somewhere, is to make all business contribute. The Democrats, incidentally, are reported to believe that a levy of less than 2% would raise the amount necessary.

Certainly many articles, especially agricultural ones, would be exempt.

New Wall St. Rule on Short Sales Probably Averts Federal Action

President is pleased, Congress appeased, and the bears aren't especially bothered

POLITICS dragged the short seller across front pages again this week. The New York Stock Exchange made a grandiose gesture against him for which President Hoover promptly claimed credit. Congress appeared satisfied, and so the threat of legislation to upset established methods of marketing is dissolved for the present. The permanence of the dissolution will depend upon the political need for a burnt offering.

The short seller is omnipresent in both commodity and security markets, and, as even the President has taken pains to point out, is essential in at least some degree. Hedging necessitates the machinery for short selling, and hedging is essential to business. In the stock exchanges, the use of the short is not so readily apparent. Richard Whitney, president of the New York Stock Exchange, presented the Wall Street case for short selling in an address at Hartford, Conn., a few weeks ago. He contended that the short seller is the only obligatory buyer in any market, and as such goes far toward stabilizing prices. Had there been no short interest, England's departure from the gold standard would have caused American security markets to close.

"Ignoramus," Also "Fiend"

When prices are rising, the short seller is regarded as a benighted ignoramus who "sells America short." But no efforts are ever made to protect him, nor is there a demand for any.

But in falling and depressed markets, he is painted as a fiend who is ruining the country. Sometimes this represents sincere conviction; sometimes it is mere refusal to acknowledge that declining business and distress selling are the fundamental causes of price declines.

The close relationship of business to prices of stock is that from 1929 to date corporate earnings have dropped somewhat more than 70%, and the decline in stock prices has been very nearly the same percentage. No one knows better than the short seller himself that neither stock nor commodity prices can be sent counter to the trend of business for any appreciable period of time.

But the long duration of depression and low prices has made the short seller inevitably a political target. So strong was Washington sentiment that the Stock Exchange in New York has recognized the situation. First it carefully supervised short selling, then it published information as to the volume of short selling, and now it has ruled that after Apr. 1 brokerage firms must get express permission from holders of stock if they use that stock in short transacions. A widely-heard guess is that the Exchange acted solely in the hope of forestalling legislation.

Actually the gesture won't mean much. Brokerage clients already give written permission regarding such use of their stock. Now they must fill out a separate blank. While the plan may restrict slightly the supply of stock for use by shorts, it is improbable that it will have any lasting effect.

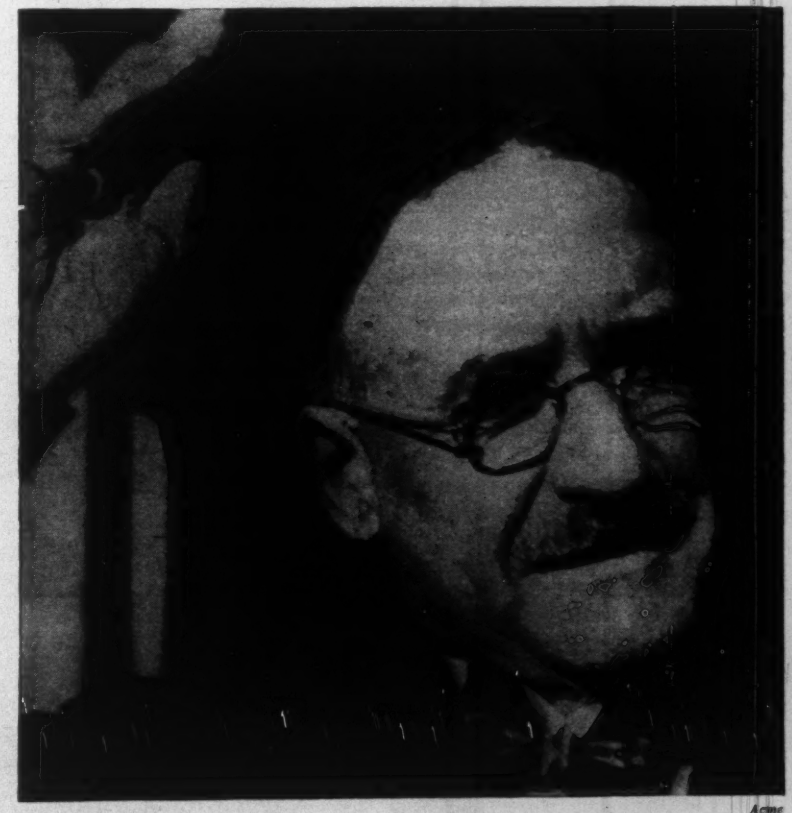
But the gesture seems to have satisfied Congress. The present outlook is that there will be no legislation against short selling either in commodities or securities, though there doubtless will be much more oratory. If a vote were forced in either the House or Senate tomorrow on a measure sharply restricting short selling, it probably would pass. But there is no inclination to force such a vote in the House. In the Senate there is no assurance a majority would vote to impose restrictions.

This is true because—proponents of short sales insist—the arguments for short selling have not been made with sufficient force. Short selling in the hope of a decline, they point out, is no more artificial than buying for a rise.

Rumors Both Ways

The allegation that men who have sold stocks short circulate false rumors about the corporation whose stock they have sold is frankly admitted. But it is also contended that manipulators for a rise are just as glib with their false rumors as to how wonderful are the earnings and prospects of their set.

In a depressed market, beyond doubt, the short sellers with their rumors do more harm than the buyer for a rise;



Acme

ENTER MR. GRANT—*When the Battle of Wilmington was over, Giannini was again in control of Transamerica; John M. Grant was its president*

but in a bull market the shoe is on the other foot.

The President is very much pleased about the new Wall Street restriction. The best information is that he will not be very active in pressing for legislation to back it up, or go further in restrictions.

He has long been in a bitter frame of mind toward the circulators of false rumors to depress prices, as evidenced some months back by his outburst against short selling of farm commodities. He feels that this has contributed to the fear which has held back business and finally resulted in hoarding.

Opponents of restriction point out that commodity prices continued to decline long after the worst of the short selling was over. Hence, they insist, all that this short selling which is now history accomplished was to prevent wider fluctuations. Had no one sold short during what looked like occasional recoveries in the market, prices would have gone much higher, but the declines that followed would have been more violent and more disastrous.

Dam Flow of Gold Coins To Foreign Hoarders

RECOGNIZING the danger to American gold reserves from European gold hoarding, New York City banking houses generally are refusing to make further exports of American gold coin to Europe. The New York Clearing House has issued an official statement that its members will export no more without investigation.

Because the United States is the only large country that coins small gold pieces, European gold hoarders have had to obtain their major supply from this country. A large amount of the coined gold withdrawn from the Federal Reserve Banks apparently has crossed the Atlantic. American hoarders, for the most part, have shown their faith in American currency, if not in American banks, by hoarding paper money.

The foreign demand for American gold coins has reversed the trend of 7 years. From 1924 through 1930 foreigners were sending back the coins they had been using or hoarding in the disturbed war and post-war period. During the first 9 months of 1931, however, we exported a net of $18.5 millions of gold coins. Then a return flow set in, so that the loss for the year was only $846,000. But January and February brought another large outflow, for which figures are not yet available, and this led to the stringent action in New York.

American bankers are increasingly realizing what a bottomless pit foreign hoarding can open. Should the outflow of gold coins continue, it is not unlikely that even more stringent and general action than that taken in New York will result. For the loss of gold is even more harmful than the domestic hoarding of paper money.

Credit Contraction Came Before Price Fall

WHILE business is still under the ether, doctors disagree on the causes of some of its ailments. In the matter of bank credit and prices, some trace contracted credits to falling prices. This is the official theory that changes in the volume of bank credit are a result, never a cause. Others see price declines as the symptom of credit malnutrition caused by lack of Federal Reserve and commercial bank vitamins.

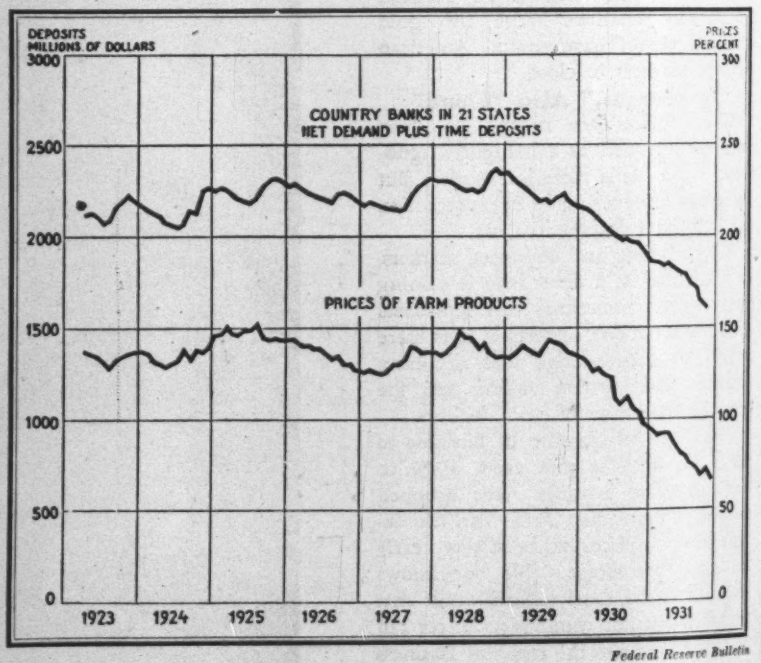
New evidence which favors the latter theory is unwittingly supplied by the February *Federal Reserve Bulletin*. The chart, reproduced here, shows the close relationship between prices of agricultural products and country bank credit as measured by country banks in 21 states. The Board explains that the rapid decline in country bank credit is due to lower agricultural prices and unfavorable agricultural conditions.

But the Board says nothing of the fact shown by its own chart that the decline in country bank credit started several months before the decline in agricultural commodity prices, and that, therefore, the credit volume trend may have had an important effect on prices, rather than the other way 'round.

That credit volume has an important effect on prices is a widely held theory, though officially denied. The theory is that banks have a definite and sometimes a determining influence on prices through their power over the supply of money. Both the commercial and the Federal Reserve banks share this influence, the former through their willingness to lend and thus create credit, and the latter through their discount rates and their influence on bank reserves by their open market operations.

View Gains Adherents

The latter, unofficial, view is gaining an increasing number of adherents. Secretary of the Treasury Mills recently lectured bankers for restricting credit supply, thus admitting by inference the important effect of this factor. Gov. George L. Harrison, of the New York Federal Reserve Bank, took somewhat the same direction in a recent speech. And Washington has concentrated its efforts to lift business out of depression on the bank credit lever.



Federal Reserve Bulletin

WHICH CAUSED WHICH?—*The Federal Reserve believes that declining prices caused the decline of bank credit; yet, in 1929, country bank credit began its slide while farm product prices were on an upgrade*

Central News

BRITONS CASH IN THEIR GOLD—*High prices for the yellow metal, due to the fall from the gold standard, are bringing everything from watch cases to earrings and walking stick knobs to the melting pot*

Woolworth's Raise to 20c Will Force Changes on Competitors

Big chain's plan to increase volume is certain to have far-reaching effects on retail stocks, policies

WITH the announcement by F. W. Woolworth & Co. that its 52-year-old policy of "nothing over 10¢" will be abandoned and the price limit set at 20¢, every manufacturer of consumer goods, wholesaler, and retailer is wondering just what the change may mean to his particular business. Most of them are confident that the announced tryout of the plan in 100 Woolworth stores will be followed by its application throughout the entire chain.

Pioneer in the 5-and-10 field, Woolworth has firmly observed the 10¢ limit since 1879, although in recent years many items have been offered on its counters which are useful only if bought in combination with others also selling at 10¢, thus bringing the actual price of the usable article to 2 or more times 10¢.

The growth of the Woolworth chain up to now has been chiefly through expansion in units, not price range, so that at the end of 1931 its 1,903 stores represented 44% of all stores of a group of 9 nationally operating chains. But the Woolworth sales of nearly $283 millions represented only about 40% of the total sales for the group.

While Woolworth observed the 10¢ limit, chains that originally entered the field as "5-and-10¢ stores" have extended their price range, some to 25¢, others up to $1, and have materially increased their sales volume by doing so.

Woolworth's decision to double the price limit indicates that future growth will be built increasingly through the more intensive use of existing locations, personnel, and equipment, and the broadening of sales and profit potentials with wider price ranges.

The company's record of store additions justifies this conclusion. After steadily stepping up its expansion ratio until, in the peak year of 1928 it opened 144 new stores, Woolworth steadily reduced the annual additions—to 100 in 1929, 56 in 1930, only 22 in 1931. Despite the substantially lower prevailing rentals and increasing use of percentage leases (*BW—Feb24'32*), only 40 new units are to be opened in 1932.

Will Bring In New Lines

With the increase in price limit, the variety of many lines now carried can be greatly extended, new lines can be added, while combination sales may bring within the range articles selling complete for $1, thus definitely widening the opportunity for rapidly increasing the sales per store.

Competing chains see in the Woolworth 20¢ price a thrust at their 25¢ to 30¢ price range, fear that they may be forced to cut profits to meet the new competition.

Managers of department stores located near a Woolworth unit, particularly those with basement stores, believe that the new Woolworth policy may mean the loss of considerable volume on low-priced items of apparel, cotton goods, household utensils; may force them to stock a somewhat better grade of merchandise in order to eliminate any direct competition with Woolworth.

New Competition

Owners of small retail stores in the vicinity of Woolworth units see in the move a deeper invasion of their field, claim that much of their profitable sales volume has involved single-unit items in the 15¢ to 30¢ price range which, up to the present, have not been handled by Woolworth, but now undoubtedly will be found displayed on its counters.

Many manufacturers see in the new price range an opportunity for large-volume business. They have previously found that Woolworth always insists on maintaining very definite and substantial margins between cost and selling prices, knows just how much it can afford to pay for an article. With the doubled limit on selling price endless items come within range for profitable selling to a promptly paying mass buyer.

Wholesalers Aroused

Wholesalers who do most of their business with independent retailers see where they will have to do still more intensive merchandising, give more substantial assistance to their retailers in order to maintain a market for the goods they want to sell.

Hubert Parson, president of the Woolworth chain, claims that the wider

price range was established in answer to popular demand.

In the formal announcement he says: "We shall continue to feature standard quality merchandise at our present prices of 5¢ and 10¢ and the establishment of the new 20¢ price will in no way result in any change in the price of the merchandise now offered at 5¢ and 10¢."

Tire Makers Say Dealers Need Better Selling, Not Protection

WITH the announcement by several large tire companies of an added 10% discount for national buyers and large commercial outlets, comes the report that independent dealers, who count on replacement business for their existence, are organizing to force a show-down, make manufacturers declare their policy, state to what extent they are willing to protect dealer distribution.

Discontent, particularly among the smaller tire dealers, has grown apace with mail-order competition, tire-selling by national chains and oil stations, the tendency of motor makers to furnish complete spare-tire equipment with new cars. The extreme scarcity of business during 1931 and the drastic reductions in profits with lower prices have aggravated their situation.

F. A. Seiberling, president of the Seiberling Rubber Co. (selling exclusively through dealers) tells the *India Rubber & Tire Review,* that he has joined the National Tire Dealers Association in its battle.

The dealers claim that in 1931 nearly 8 millions of the total of 37 millions replacement tires were sold by mail-order houses, chain stores and gas stations, that 10 millions were sold by the manufacturers' own retail stores, that they obtained less than half of what should be their exclusive trade. They protest that manufacturers should not make private brand tires, nor sell to national chain or oil station operators, nor make concessions to fleet-owners or nationally operating large buyers.

Manufacturers Reply

Manufacturers reply that dealers now have and always have had first opportunity to handle replacement buiness, that new competition, mail and chain selling would not have gained such importance if dealers had given adequate and efficient service.

They answer the dealers' compaint about national and large commercial buyers with the reminder that those accounts generally discount their purchases, make no demands for excessive terms, require little time and trouble to handle, should, therefore, not be called upon to pay a premium for dealer handling, when the dealer actually can perform no service. Furthermore, they add, many national buyers would refuse to transact business through designated, perhaps insufficiently equipped dealers.

The dealers frequent complaint against private brand goods is answered by the statement that every replacement sale has salesmanship back of it, and that if mail order and chain stations can sell branded tires of unidentified manufacture, against the authorized dealer of a nationally advertised tire manufacturer, the latter had better learn how to do a real selling job.

Those familiar with the situation in the tire industry point to the fact that dealer-cooperation by important manufacturers is more generally practiced to-day, than ever before; say that at no time in the history of the industry have independent dealers had a better opportunity than now; assert that it is only a matter of picking one manufacturer and doing a selling job.

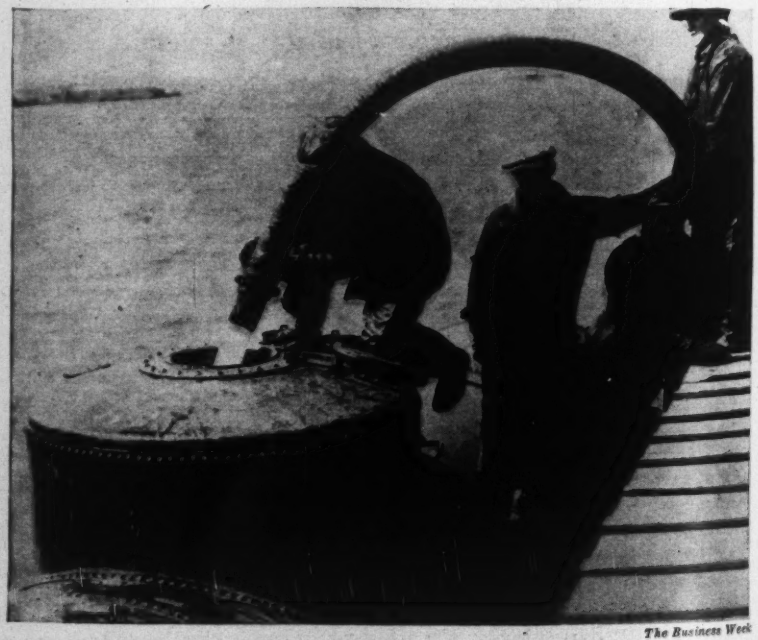
Goodyear Tire & Rubber Co., Inc., largest tire manufacturer in the world, also making tires for Sears, Roebuck & Co., world's mail-order house, gives its dealers definite figures, showing that in 5 years of mail-order competition (1925-'30), the mail-order houses increased their share of the replacement business by 8.4% while the "Big 4" brands, marketed by the makers, gained 12.8%, proving that proper selling offsets other considerations.

Firestone Tire & Rubber Co. broadcasts its strict adherence to the Firestone name, stimulates a vigorous, highly aggressive campaign against mail-order competition.

Launches Educational Program

B. F. Goodrich Rubber Co. has launched a comprehensive program for educating tire dealers, using its 180-odd retail tire stations as proving ground for merchandising methods, has crystallized its experience into a policy, play and film, which are being presented to groups of dealers at central points (*BW—Feb17'32*). To give its dealers a definite preference, Goodrich has just started to market a super-cushion tire, not at present supplied to car manufacturers as stock equipment.

General Tire & Rubber Co. refuses to



The Business Week

TANKER TO TANK CAR—*Tank cars on floats go out to meet the rubber ships in New York harbor. The liquid latex is pumped overside into the tank cars for transport overland to the rubber factories*

Announcing the NEW

INTERNATIONALS

Models A-7 and A-8

POWERFUL
MODERN
FAST
BIG

TWO new Internationals are now available—Heavy-Duty Models A-7 and A-8. Big, yet fast! Powerful, yet unusually easy to handle. They are Harvester's answer to present-day demands for moving heavy loads with speed and unfailing dependability!

These two new Internationals are built in 160, 180, 200 and 225-inch wheelbases. They are adaptable for dump and tractor-trailer service and the heaviest kind of cross-country hauling. Cross-continent hauling, for that matter, for they have at their service the largest company-owned truck service organization in the world.

The engines of both these new models are 6-cylinder, valve-in-head type, with removable cylinders—an International feature that makes for remarkably low maintenance cost!

There are five speeds forward—two reverse.

There are four rear springs instead of the conventional two. These are of dual, semi-elliptic type, one mounted above and one below the rear axle on each side—assuring improved cushioning, and greater strength to absorb the enormous torque and driving stresses of the rear axle.

See the Models A-7 and A-8 now. Have the nearest International showroom arrange a demonstration. In no other way can you get a true picture of the new truck-value these two new trucks represent!

Models A-7 and A-8 Features

Rated Capacity: (Both A-7 and A-8) 5 tons. Maximum Capacity, including cab, body, equipment, and pay load: 24,000 pounds.

Wheelbases: 160, 180, 200, and 225 inches.

Engine: Both models, 6-cylinder valve-in-head type. Model A-7, 4 1/4-inch bore x 5 1/4-inch stroke. Model A-8, 5-inch bore x 5 1/4-inch stroke. Engine features include removable cylinders, full pressure lubrication, oil filter, oil-type air cleaner, fuel pump, and downdraft carburetion.

Clutch: 15-inch, single-plate type.

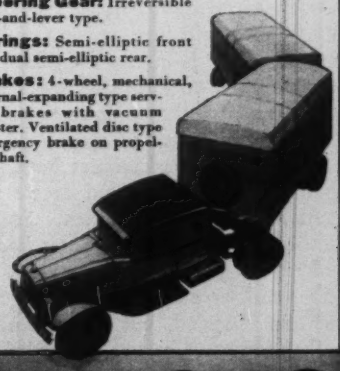
Transmission: 5 speeds forward, 2 reverse.

Final Drive: Full-floating double-reduction gear type.

Steering Gear: Irreversible cam-and-lever type.

Springs: Semi-elliptic front and dual semi-elliptic rear.

Brakes: 4-wheel, mechanical, internal-expanding type service brakes with vacuum booster. Ventilated disc type emergency brake on propeller shaft.



INTERNATIONAL HARVESTER COMPANY
OF AMERICA
(INCORPORATED)
606 S. Michigan Ave. Chicago, Illinois

INTERNATIONAL TRUCKS

make private brand tires, sells for replacement purposes only through regularly franchised dealers under a special cooperative selling plan, found 1931 unit-sales 11% greater than for 1930.

Kelly-Springfield Tire Co. also capitalizes the fact that it markets all its tires under owned brands, has inaugurated a plan of selective dealer selling in protected territory, is introducing a new brand, the "Cruiser" tire, to help dealers meet competition.

India Tire & Rubber Co. has maintained an aggressive policy of dealer selling. During 1931 it added new dealers at the rate of 50 a month, in 10 months of that year nearly doubled its unit sales over the full 12 months of the 1930 fiscal year and more than doubled its operating profit. It now proposes to supply its dealers, supply them with a fighting line.

Lee Tire & Rubber Co. believes that tire manufacturers should not supply such channels of distribution as mail order houses and chains with tires at prices so low that they can sell at 20% to 25% under prices that the regular dealers of those same manufacturers must get if they want to stay in business.

Lee has solved most of the present controversial problems of the industry by selling all tires under its own name, making price lists identical for chain oil stations, independent dealers, and all other buyers.

Wide World

GORDON SELFRIDGE—*The American who introduced the department store to the British goes down to inspect the foundations for the addition to his London store*

Fifth Avenue's Historic Shops Live On, But the "Shoppes" Die

Caterers to the really exclusive philosophically say their customers will recover first

DURING the scramble for retail business through bargain sales and over-stress on low price, what has happened to the aristocratic specialty shop? The snooty emporia trafficking in luxury grades of gowns, hats, shoes, clothing, gems, etc., depending on the *riches*—both *nouveaux* and *vieux*—who draw modest curtains across their show windows at night; who display therein neither sales announcement nor price cards?

The best and oldest have been hit but not fatally. They are hurt but are not suffering. Wealth demands (and pays for) distinctiveness. These shops supply it. There are yet in our amazing country enough sizable incomes to keep the fine specialty stores running, even though their ledgers show red. Some have indulged mildly in the sales craze. Others have held firm, passing on legitimate savings. If buyers did not appear, they sat back on adequate reserves and are waiting for the madness to pass.

Exit the "Shoppe"

By now the weak sisters have given up the ghost and received decent interment by sorrowing creditors. Some of the big old New York houses had embarked on flamboyant expansion programs and were caught by one leg when the trap snapped, but they have since pulled loose. Greatest casualties were among the small, highly specialized stores that bred too fast during the '29 boom.

These last are classifiable. They were started by (a) speculators with a little money who knew a good designer and had a friend with a vacant store who was willing to take a chance; (b) department buyers, etc., for established stores who built up personal followings and pulled out on their own; (c) ambitious girls with money (maybe inherited, maybe furnished by some kind friend) who thrilled at the thought of having a store in New York. Their names began with *La* this and *Chez* that. Often the French accents within were tainted slightly with Bronx. It is this type which has for the most part joined M. Villon's snows of yesteryears. "For Rent" signs are their epitaphs.

Out-of-Town Trade

Six of our cities have fine specialty shops. To forestall argument they shall here be nameless. But New York so far surpasses others that the chronicle of what has happened becomes almost a local story. ("You know, darling, we have some smart shops at home but I never feel really confident of a hat unless it came from New York.")

Fifth Avenue (with its Tiffany's, McCutcheon's, Bergdorf's, Sulka's, etc.) is the symbol of the class demand. Some of the finest stores are now on other streets and in them of late sneers have been sneered. One: "The Avenue show windows have the measles—are all broken out with 'sale' signs." Another: "I saw on a restaurant window a sticker boasting of marked-down hash. Imagine! On Fifth Avenue!"

Nevertheless the strength of a fine tradition is proven by the manner in which Fifth Avenue occupancies compare with other districts. There are plenty of vacancies, even in that proud stretch between 34th and 59th. The number of empties run above 13. Many of these have tiny frontages; also there are choice corners that a few years back commanded enormous rentals. Yet competing districts are worse off.

An alert and powerful Fifth Avenue Association, backed by retail and real estate interests, is battling to preserve the high character of the street and the tremendous prestige it carries. Woolworth 5-and-10 stepped over the 34th Street deadline but now cooperates in the defense. Childs restaurants came also; but the association claims credit for steering this chain toward good taste, inducing it to try out a bronze front on its first Fifth Avenue location. The organization says that vacant stores could now be rented if owners would allow leases by chains catering to women. It is also explained that not every vacant store marks a dead business. Some are only dormant. Strong organizations whose leases have lapsed, others dispossessed by Radio City demolitions are sitting back waiting for the slump

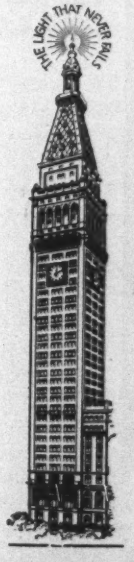
Build a Program of Insurance as you would build a house —to shelter your family

Metropolitan Life's contracts afford a means to

—create estates and incomes for families
—pay off mortgages
—educate children
—provide income in the event of retirement
—establish business credits
—stabilize business organizations by indemnifying them against the loss of key-men
—provide group protection for employees covering accident, sickness, old age and death
—provide income on account of disability resulting from personal accident or sickness.

Metropolitan policies on individual lives, in various departments, range from $1,000 up to $500,000 or more, and from $1,000 down to $100 or less—premiums payable at convenient periods.

The Metropolitan is a mutual organization. Its assets are held for the benefit of its policyholders, and any divisible surplus is returned to its policyholders in the form of dividends.



© 1932 M. L. I. CO.

PERHAPS, like many another man, when you bought your first life insurance policy you had the satisfaction of feeling that you were protecting your family and acquiring your first financial nest-egg.

Nowadays it is customary for far-seeing people to analyze their life insurance needs and provide intelligent protection for their families and themselves. A new way has been found to answer that perplexing question, "How much insurance do I really need?"

You can now build a Program of Life Insurance as you would build a house—first sketching out your needs and then building according to those plans.

It is so simple.

Set down on a piece of paper in the order of their importance, your personal obligations and financial ambitions.

What would be the smallest lump sum that you would need to leave for immediate family expenses and for the payment of debts? What would be the very least that you would want to provide as a monthly income for your family?

What would be the probable cost of giving your children their needed education? What monthly income would you like to have yourself when you reach retirement age?

A Metropolitan Field-Man will be glad to discuss with you what part of your program can be begun now. He will help you plan your Insurance Program and show you how you can realize your hopes and turn your dreams into realities.

Regarding Insurance in any amount, consult a Metropolitan Field-Man or write to

METROPOLITAN LIFE INSURANCE COMPANY

FREDERICK H. ECKER, PRESIDENT · · · ONE MADISON AVE., NEW YORK, N. Y.

20 years of HARD LABOR!

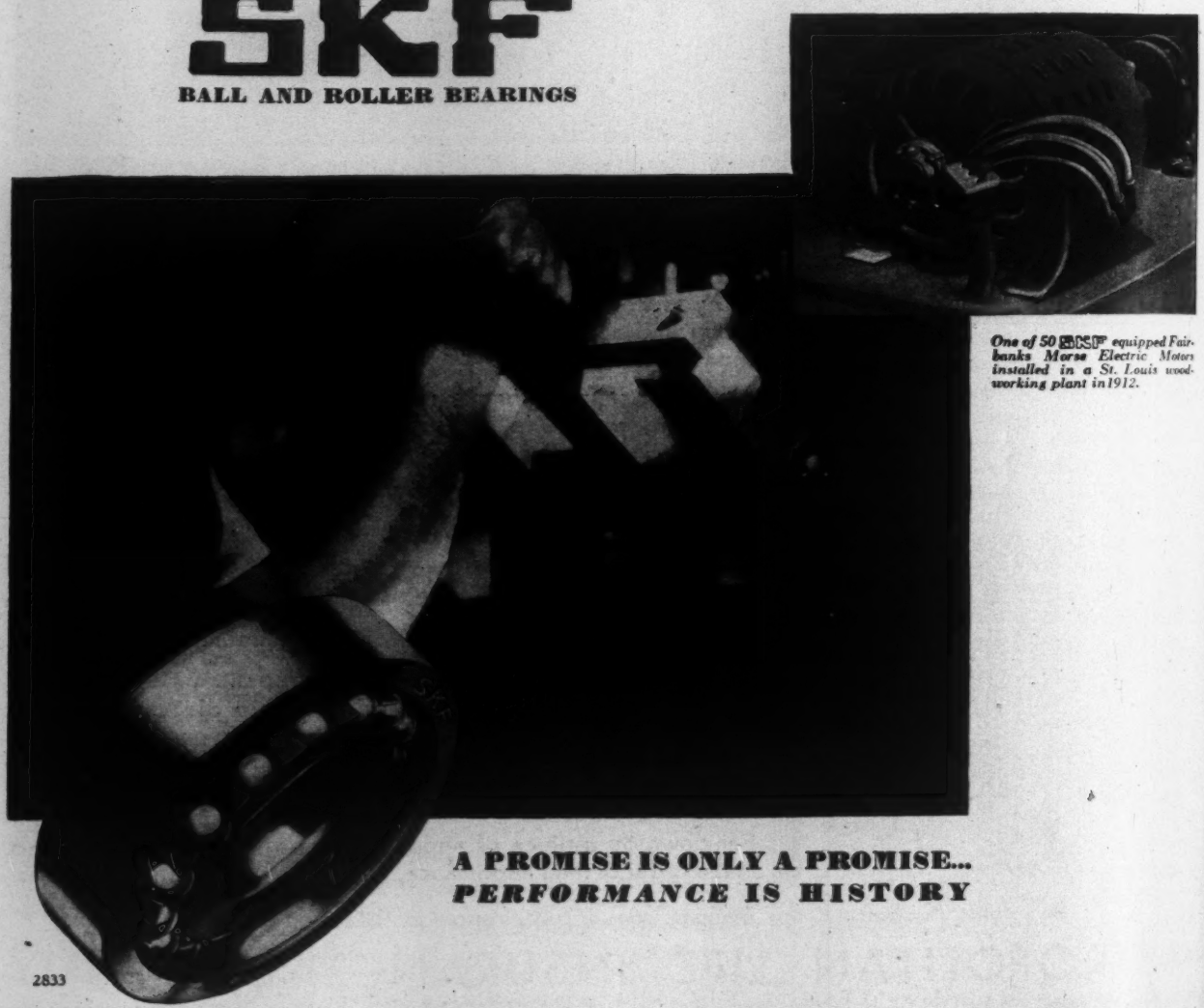
It was 1912 when two SKF Bearings dipped their pens in the ink of Performance and started to prepare this advertisement. It is not finished yet. You see, the bearings aren't... and 20 years have gone by.

For in 1912 these two SKF Bearings went into a Fairbanks Morse motor that in turn went into a St. Louis woodworking plant the very same year. The same old motor is still doing duty today on the same old pair of SKF Bearings.

Perhaps ten years from now this pair of SKF Bearings, still functioning in the same Fairbanks Morse motor, will write another advertisement for SKF . . . SKF Industries, Inc. 40 East 34th Street, New York, N. Y.

● **Two SKF Bearings Began Writing This Advertisement in 1912**

SKF
BALL AND ROLLER BEARINGS



One of 50 SKF equipped Fairbanks Morse Electric Motors installed in a St. Louis woodworking plant in 1912.

A PROMISE IS ONLY A PROMISE...
***PERFORMANCE* IS HISTORY**

2833

to pass; when happy hopes become fact they will reopen.

Credit killed off many a little shoppe. There is no cash-and-carry within Rolls-Royce trade. Business is done on credit—some of it of such long term as to be almost historical. The small shopkeeper pressed by creditors had his choice of disasters: He could dun his customers and fail like a beastly cad, since such uncouth action would inevitably lose their patronage; or he could say nothing about it and go down like a gentleman.

Rich Trade Slow Pay

The very rich are notoriously slow pay. Here is the lowdown on their habits by the head of a fine shop:

"Say a wealthy woman spends $25,000 a year with us. At the end of the first 6 months we get a check for $7,000; at the end of the year another check for, say, $8,000. Thus she has bought $25,000 but paid only $15,000. She will never close that account. It's always thousands behind. When she dies and her estate is liquidated we get all that is owed. It takes a master diplomat to dun the average rich woman without making her mad and losing her as a customer."

But the manager of a linen store says the rich are better pay than formerly: "Men and women are getting more businesslike. Right now they don't want heavy debts over their heads. We find full settlement a matter of months. The reason for the old twice-a-year system was that much wealth was in trusteed funds on which payment was made every 6 months."

What had hurt most during the depression?

Destructive Advertising

"Extravagant advertising claims by department stores," was the prompt answer. "Stores have carried it to such a ridiculous extreme that they are destroying faith in bargain ads. The little specialty shop which tries to outdo the big stores at this is committing suicide. If they can't run on long vision they might as well get out. We have little style factor to contend with in selling linens and we aren't much worried. See how it works: Years ago I bought in Europe a hand-made lace runner for a dining-room table. It cost $600. Our first retail price was around $1,000. It didn't sell and at every year's inventory we marked it down on the books. Finally it stood at $30. We sold it—for $650."

The merchandise chief of one of the largest shops observed that the New York stores sold to the entire country and were, therefore, a gauge to general tendencies among the rich.

"In Wilkes-Barre, Akron, Dallas, all over, there are families with a great deal of money. The women are not satisfied to buy in the home stores. They shop when they come to New York. Decline in rail passengers shows how far off their traveling is. Our books reflect it. About 50% of our trade is with out-of-town people. In Buffalo we have more accounts per 1,000 of population than in New York. Here and in other distant cities are executives making big salaries who now have to stick to the job. The women aren't traveling and naturally are cutting down on their buying."

Slump psychology has hit men even harden than women. Not only are rich men not buying necessities (whether they can afford them or not) but they are taking a morbid pride in the number of years they "have worn this suit." This mania has produced some astonishing phenomena in one of the big stores specializing in men's clothes, sportswear, and sporting goods.

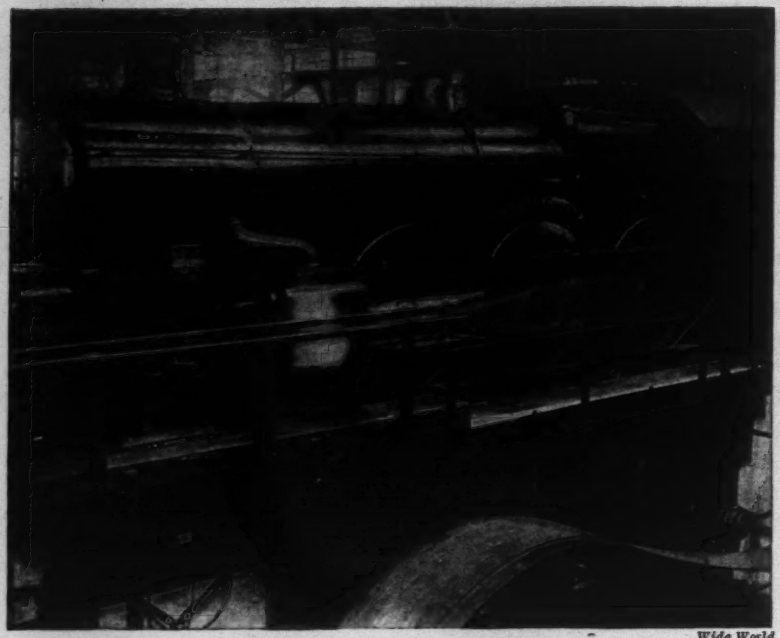
A man came in to look at overcoats. They showed him one for $85. He wanted it but finally decided he couldn't afford to buy. On his way out his attention was attracted by a model of the Washington coach. The price was $150 and it was the most useless thing you could imagine—but the man bought it. Another who decided for a third year on his suit bought a $200 tiger skin—for his son's room at Princeton. There is an inexplicable run on fishing accessories. A book on the subject retailing for $7.50 has sold out several times. There is a general feeling that a man will keep up his hobbies when he skimps on necessities. Witness the buying of two dogs for $30,000 at the recent dog show. Golf is as popular as ever but old clubs and last year's tweeds are still in use. The lions, elephants, and such are getting a break, as several African big game expeditions have been canceled.

Markets Deferred

Here is the general conclusion by a veteran in the men's high-class specialty field. "Our customers simply are not buying. All we can do is pass along legitimate savings, sit back, and wait for them to resume. Our trade comes from people with securities in their vaults. They are not in distress now. Certainly they will be the first to start buying when things start up again. Not only that, but they will be ashamed of things they have used overlong, will feel they have to buy heavier than before to put themselves in proper shape. Of course, if things aren't coming back there's only one thing to do—sell off our stock and get out of business."

Baltimore & Ohio

PRIVATE SECTION—*Newest in railroad accommodations is the private section, announced by B. & O. for the Capitol Limited. Permanent curtains give privacy; thermos bottle, heat, and ventilation control, private washrooms, offer compartment comfort at the price of 2 lowers*



Wide World

BLOCK-TESTING A LOCOMOTIVE—*To speed up fast-freight and passenger service, the Great Western Railway runs a test in the Swindon, England, shops. The "Shooting Star" is doing 85 m.p.h. on the rollers, and careful record is kept of pulling-power, coal and water consumption*

Holding Company Issue Spoils Railroad-I.C.C. Harmonizing

Thom and Eastman split over proposal to tie regulation to the 1929 consolidation plan

STARS in the harmony team on rail legislation, Joseph B. Eastman, the Interstate Commerce Commission's liberal, and Alfred P. Thom, the railroads' legal genius, already have parted company. Agreed upon a policy of rate-making that would eliminate valuation and recapture of excess earnings (*BW—Feb 24'32*), they have split on the method for drawing the pattern of railroad consolidation.

The break arose during Congressional hearings, now in progress, on legislation to bring railroad holding companies under the I.C.C.'s control.

To Facilitate Mergers

This measure, when first proposed, aimed simply at checking the unregulated merger-making activities of holding companies. The purpose now, as explained by Commissioner Eastman, who drafted the new bill for the House Commerce Committee, is much broader and is to facilitate railroad consolidation by providing for every legitimate means by which railroads can be brought together.

Under the wide scope of Eastman's bill, railroads could be combined, subject to I.C.C. supervision, by consolidations, mergers, purchases, leases, operating contracts, acquisitions of stock control of railroads by other railroads, or even by a single holding company. In all this, the commission's 1929 consolidation plan, subject to change on its own motion, would continue to serve as a guide.

The railroads have no quarrel with the broad base for building up big, strong systems. They want, however, to scrap the 1929 plan, into which all combinations must be fitted, unless the I.C.C. can be prevailed upon to change its proposed groupings, as the Eastern trunk lines are now trying to prevail upon it in order to carry out their consolidation scheme.

Lawyer Thom, who made a futile plea against considering railroad consolidation in connection with holding company regulation, challenges the theory that the I.C.C. can force down on the rail carriers its idea of what consolidation ought to be. His stand is that consolidations can come only out of prior agreement on terms and conditions, that the 1929 official plan should only be suggestive, and that, since railroad mergers cannot be compulsory, a set plan defeats its own object. What he means, of course, is that rail lines cannot be bought at a reasonable figure if their owners know that the I.C.C. has included them in a particular system.

Eastman Thinks Differently

But Commissioner Eastman is of a different mind. He says that railroads have seldom been combined by quietly picking up stock at low prices, and points to cases where control had been acquired without benefit of I.C.C.'s jealously held authority. In buying control of the Lehigh Valley, for instance, Wabash paid $200 a share for stock that is now selling at about $16. There is a fine opportunity now to buy up stocks at low prices but, by and large, this is not being done because money is tight and if it were available, stock prices would rise.

Bankers like the stock-jobbing method of putting roads together, Eastman told the House Commerce Committee, but he thinks there are better ways. His proposal is to legalize the holding company as a convenient device for this purpose, provided that hereafter this non-operating concern is forced to submit to I.C.C. supervision of its accounts and security issues. Interlocking directorates and voting trusts, as means of combining railway properties, would be put definitely outside the pale. To break up combinations that do not jibe with its own ideas on consolidation, the commission would be vested with the benevolent authority to compel divestiture of stock acquired at any time since 1920, when Congress first wrote railroad consolidation into the law.

Doubts Effect on Rates

According to Dr. M. W. Splawn, House Committee's counsel, who thinks that the Eastman bill will make it much easier for railroads to combine, consolidation does not offer much ground for hope that freight rates will be reduced, but is necessary to utilize a substantial proportion of railroad mileage, and economies in operation are large enough to justify this policy.

Perhaps it is strange that in the dozen years since the passage of the Transportation Act, there has not been one actual consolidation of railroads. Many

Rainbow Natural Bridge, Utah

And there's a natural bridge in business

IN MOST BUSINESS a long gap—long and costly—separates producer and consumer. In the telephone business this gap is bridged quite naturally—and economically—by Western Electric. ¶ This company reaches all the way from buying raw materials to producing the finished telephone apparatus and distributing it to the telephone companies. The route is unusually direct because of Western Electric's close relation in the Bell System to these companies. ¶ This bridge saves time, effort, expense. It is the Bell System's answer to one of the country's most urgent needs—lower distribution cost. And a reason why you get such real value in your telephone service.

Facts About
Western Electric
Purchasers, Manufacturers, Distributors for the Bell System

• *AMERICAN TELEPHONE AND TELEGRAPH COMPANY* •

so-called unifications have been accomplished, but all of them have taken the form of acquisition of control by purchases of stock.

One reason for this is that the Interstate Commerce Commission did not publish its consolidation plan until December, 1929. The railroads did not know what they could do, and the controls acquired served as a stop-gap pending adoption of the plan.

Another reason for their hesitation is that the law was so worded that it has been construed as covering only consolidations in the technical, legal sense—the absorption of the properties of 2 or more corporations by a new and separate corporation. There was also a requirement that capitalization could not exceed the value of the combined properties.

Though these obstacles have been removed in the bill now in Congress, the railroads will seek to convince the House Committee that the principal hindrance to consolidation is the I.C.C.'s own plan for the allocation of their properties.

Yankee Version of Rubber-Tired Rail Car Uses Stainless Steel

AMERICAN engineers have perfected the original French rubber-tired rail-car (*BW—Apr29'31*) to the point where it meets American standards of safety, and merits the considerable interest shown by American railroaders anxious to regain branch line traffic.

The standard Budd-Micheline car is constructed almost entirely from high-tensile strength stainless steel about the thickness of a playing card. It is rolled into special shapes and joined by a new process of electric welding. The frame of the Budd-Micheline car truck can be carried by one man. The main supporting beams for the standard 40-passenger car, while 23 inches wide, weigh only 120 pounds. Even floor and roof are stainless steel, cheaper here than plywood.

Introduces New Construction

The lightest available standard 2-passenger car seats weigh 85 lbs. The new type weighs 35 lbs. The entire 40-passenger car, including gasoline motor, weighs only 13,500 lbs. or less than 340 lbs. per passenger, compared with over 1000 lbs. per passenger for standard railway cars, and approximately 5000 lbs. for Pullmans.

Operating cost including crew would average 15¢ to 25¢ per mile compared with 75¢ to $1.25 for regular branch line operation. Thus at no extra cost railroads can restore frequent service on branch lines, may establish low excursion rates to lure back passenger traffic.

They will have other attractions to advertise. The pneumatic tire eliminates track jolts and noises, increases the comfort of rail travel. Safety tests have met questions raised by the automobile driver: What happens in case of a blow-out or puncture? How can you stop a rubber tire on slick steel without skidding, especially if the rail is wet?

The car has 12 wheels; 3 on each side, front and back. Side flanges keep the tire on the track. Inside the casings are ridges, which, in case of puncture to the air tube, bear upon each other and prevent the tire being cut to pieces before it can be changed. Mounted in 3's, inflated tires remaining help take the load off the cripple. As to braking: The first tire in each set of three acts as a wiper which gives the following treads clean surfaces to take hold of.

The Budd-Micheline car is "air-conditioned." Street railway engineers believe trolley cars could use the new design, would cost less to operate while meeting the demand for less noise.

Effect of Intercoastal Rate Truce a Problem

STAMPED with the U. S. Shipping Board's O. K., the new Atlantic-Pacific intercoastal pact (*BW—Feb24'32*) will go into effect March 1, providing the 2 steel company lines — Calmar and Isthmian—can be induced by that time to adhere to the terms through separate agreements.

Effect of restoring rates to pre-rate-war levels is not yet clear. It is true the shipper will have to pay substantially more than he did during the past year, but against this counts the advantage of stable tariffs.

Shipments, particularly west-bound, have shown a marked increase, in anticipation of the higher rates.

The agreement is to hold 6 months, until Aug. 31, 1932. It is signed by 13 lines, including the American-Hawaiian, Dollar, Luckenbach, Panama Pacific, Quaker, Arrow, McCormick, Panama Mail, Argonaut, Williams, Shepard, Nelson, and Union Sulphur. No party may withdraw before the stipulated time, and each line is required

Acme

AMERICA'S RAIL CAR—*Railroad men examine with interest the new Budd-Micheline car. Left to right are George Houston, president, Baldwin Locomotive; Edward G. Budd; Harvette Michelin; Frederic Williamson, president, New York Central; Samuel Vauclain, chairman, Baldwin Locomotive; Frank Russell, Rail Car Division, Budd Manufacturing Co.*

to post a $25,000 penalty bond. Penalties for violation of the agreement are to be determined by three-fourths of the lines present at a meeting called for that purpose and must not exceed 4 times the freight money involved or the amount of the penalty deposit.

Shipping lines are divided into "A," "B" and "C" groups, the first group representing lines with fastest boats and highest-frequency schedules. The "A" lines will charge the highest rates, 50¢ per ton higher than "B" lines on westbound shipments of heavy items on a "handicap" list. Lowest rates will be those of the "C" lines.

Unfair practices, such as transportation of passengers or their automobiles at reduced rates, are expressly banned. As anticipated, there will be no pooling of excess revenues, which existed under the defunct intercoastal conference.

Legion Job Campaign Off to a Good Start

WITH nearly 70,000 new jobs recorded during the first week of its campaign, the United Action Group for Employment, backed by the American Legion, American Federation of Labor, and the Association of National Advertisers, confidently expects to reach its objective of 1 million new jobs (*BW—Jan27'32*).

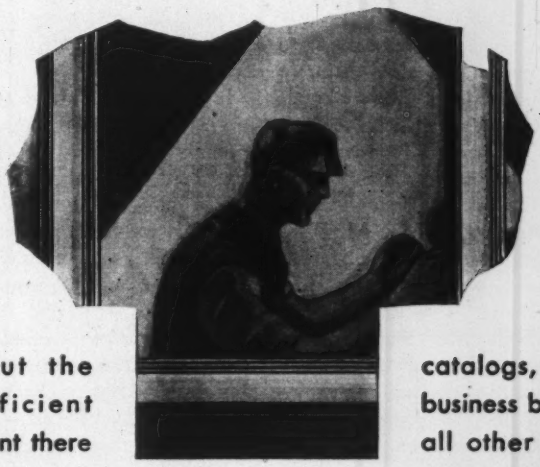
The most important single development of the week was the pledge of 18 railroad presidents to organize local campaigns in communities served by their lines—Pennsylvania; Southern; Atchison, Topeka & Santa Fe; Chicago & North Western; Burlington; Illinois Central; Chesapeake & Ohio; Pere Marquette; Missouri Pacific; New York Central; Norfolk & Western; Southern Pacific; St. Louis–San Francisco; Boston & Maine; Louisville & Nashville; New Haven; Chicago, Milwaukee, St. Paul; Erie. Organization activities of these roads will spread the job-raising drive to nearly every corner of the land.

The campaign and its methods have aroused a certain amount of criticism, of course. There are those who call it coercive, who claim that it takes credit for all employment regardless of its source, who call it unfair to employers who have done everything they can to keep men at work.

In spite of its faults, the campaign has a value which should not be underestimated. This greatest peace-time mobilization of public opinion is getting results in terms of men at work. More important, it is focussing public attention on the problem.

Screened from view—

a Secret Conkey Cost-Reducing Operation that Benefits You



Throughout the highly efficient Conkey plant there are secret operations by which books are made better, at a greatly reduced cost.

This is but one of the phases of Conkey management thru which you—the customer—are benefited, both as to quality and price.

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Federal Relief Depends On The Weather and the News

This time there were no scareheads to scare Congress, but the issue is coming up again

THE Senate's defeat of the LaFollette-Costigan bill by a 48 to 35 vote has not settled the question. There is little doubt that federal relief for the unemployed will continue to worry Congress until that body does something about it. Already several new bills have been presented in both houses which—as proponents of such bills phrase it—will again and again put the members to the test of whether they dare maintain the principle of states rights and non-interference by federal agencies in local problems at the expense of starving citizens.

Those who believe in federal relief see a trend their way. They point out that a year ago, when federal relief was under discussion, only 5 Senators had a good word for it. Two weeks before the LaFollette bill came to a vote there were 10 Senators behind it; a week later, 18; when the vote was taken, 35. And they add that, although 48 voted "No," only 3 Senators openly expressed opposition prior to the vote.

No Bureau Wanted

Some of the Democratic opposition was based upon the fact that a new federal bureau was to be formed. This greatly tickled the risibilities of veteran Washingtonians who recall the avidity with which these same Senators have grasped opportunities in the past to add federal bureaus.

However, the chief reason for the vote against the LaFollette-Costigan bill does not lie in Washington, but back in the absence of front-page publicity for starvation and suffering.

The frantic appeals to Congress for federal aid were mostly political. They came from governors and mayors, and were based on statistics, rather than on happenings which would have shocked the country.

At the time Congress convened it was predicted that the fate of federal relief would depend on the publicity about hunger and cold just prior to the roll call on Capitol Hill. It so happens that there was no great amount of such publicity. The winter had been mild, and people were not aghast that such conditions should exist among the poor and unemployed.

That there has been widespread suffering seems obvious and that local relief funds are proving inadequate at many points was testified to by witnesses who appeared before the Senate Committee from every section of the country. But, in face of the condition of the budget, the statesmen—and the politicians who have a shrewd idea of the current value of an economy gesture—have still to be shown.

If the winter should continue mild, and if there should be no scarehead news accounts of starvation and suffering from cold, and—above all—if business should start picking up just a little, then proposals for federal relief will not disturb budget calculations very much.

It is even possible, assuming the conditions just cited, that the relief will take the form of a federal contribution to the Red Cross for the purpose, probably under $100 millions, and perhaps as little as $25 millions.

However, there is a belief that the Senate, at least, is prepared to vote a more satisfactory bill if it avoids direct relief. The substitute for the LaFollette-Costigan bill proposed by Senators Black and Bulkley, offering loans to the states, could have been passed with the support of the LaFollette group. Offered as a separate bill, it may be hard to stop.

The group supporting LaFollette in the fight seems set on a principle, cares less for immediate relief. Evidently it believes that federal relief is not only a duty in the present emergency but is good policy under any circumstances in order to spread relief costs equitably among those best able to bear them. Chief objection to the Black amendment for loans to states was that ultimate costs would fall on small taxpayers who support state and local treasuries; that those with large incomes, who would pay most of the costs of federal relief, would escape the burden.

Taxation Hits All Alike

The objectors find sound economic reasons for their viewpoint in the effects of the widespread absentee ownership of industry and the concentration of the wealth of ownership in large cities. They point out that profits from plants in Oshkosh and Dubuque go to owners living in New York; that only through the use of federal taxation can these persons be made to bear a fair share of the relief burdens to which the plants

Wide World

SERVICE STARS FOR EMPLOYERS—*Carl Byoir (left) and Mark McKee, director and executive director of the Legion-Labor-Advertisers job-finding organization, with the posters awarded to firms which take on a man*

from which they draw profits are chiefly contributory.

The House Committee on Labor is considering the Lewis bill, quite similar to the LaFollette measure; Chairman Connery will ask for a favorable report on it. Its chance of passage is slight but it will provide an opportunity to marshal more facts in support of federal relief.

Along other lines there are several proposals for expanded public works, for increased federal appropriations for highways and other means of accelerating employment.

Sponsors of the LaFollette and Lewis bills point out that these are fine; that undoubtedly something must be done to increase employment and that the federal government has obvious responsibilities. They add, however, that their bills are not trying to cope with unemployment, offer no solution for it, but are purely humanitarian measures to meet an emergency of starvation and suffering. While this emergency exists —and they maintain it will continue until the government does something— they charge that substitutes for increasing employment are simply muddying waters already badly roiled.

Meanwhile, the march of the executive council of the American Federation of Labor and representatives of more than 100 affiliated unions on the White House last week has impressed Washington. A year ago this group was as much opposed to federal relief as the staunchest senator; now conditions have changed its viewpoint; it is and will continue to be strongly opposed to any disposition to sidetrack the federal relief which it believes to be absolutely essential to preserve the nation.

Demands for Relief Rising Steadily

REPORTS of unemployment conditions throughout the country continue to emphasize the necessity of further relief measures.

Toledo makes a good exhibit. Five of seven banks are closed and $100 millions is tied up in them. Its leading industry is a hard-hit automobile plant. The Toledo city council petitioned the President and Congress a few days ago to consider its serious situation and to grant it federal aid to meet its relief needs for the next 2 years.

Because the depression has been more severe in Toledo the crisis has arrived there earlier. There is considerable opinion that no small number of cities

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At Lompoc, California, the scene of a mysterious catastrophe ages ago, *Johns-Manville* mines a material capable of withstanding fiery temperatures up to 2500° F.

HUNDREDS of thousands of years ago it was. A species of extinct herring swarmed a sheltered bay, touching Santa Barbara County, California. In pursuit darted larger fish—mackerel, flounders, bass, rockfish.

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Nature has erected a ponderous monument on this site. For here, at Lompoc, California, hidden in an ancient bay (now raised well above sea level), modern science discovered a material for the control of high temperatures—modern Industry a saving of over $25,000,000 a year.

Long before the sudden annihilation of these fish, a rich deposit of diatomaceous earth was forming. Diatoms (one-celled, free-moving, microscopic plants) multiplied, remultiplied. Dying, they sank to the floor of the bay, depositing their tiny silica shells. Strata formed, new deposits were laid, growth proceeded prolifically. Midway in the formation, the tragedy of the fish occurred, in turn buried by later deposits.

Today, from Lompoc, Johns-Manville mines these siliceous diatoms, molds from them insulating materials in many forms. Universally, engineers regard diatomaceous silica products as *the* most efficient non-conductors of heat at high temperatures.

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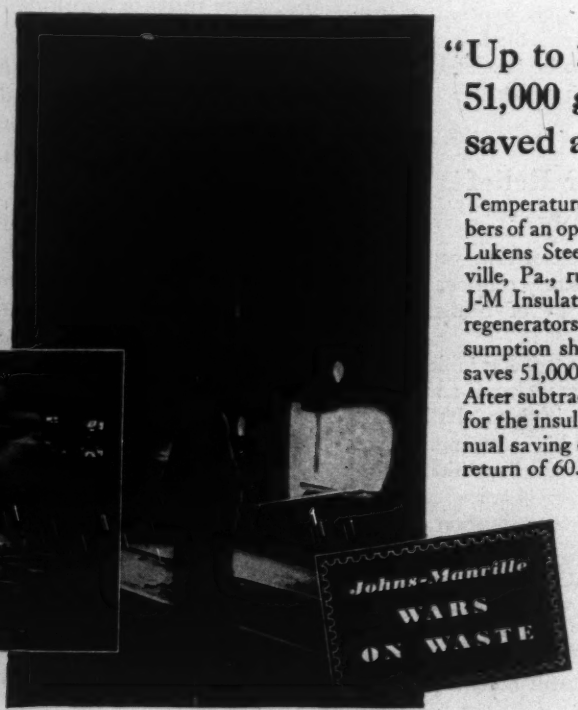
JOHNS-MANVILLE has been in the Insulation business for more than 70 years. Today, there is a J-M Insulation to take care of every temperature condition from 400° below zero to the highest industrial temperature. Ask a J-M engineer to call. Address Johns-Manville, 292 Madison Ave., New York City.

$600 saved per furnace 89% on the investment

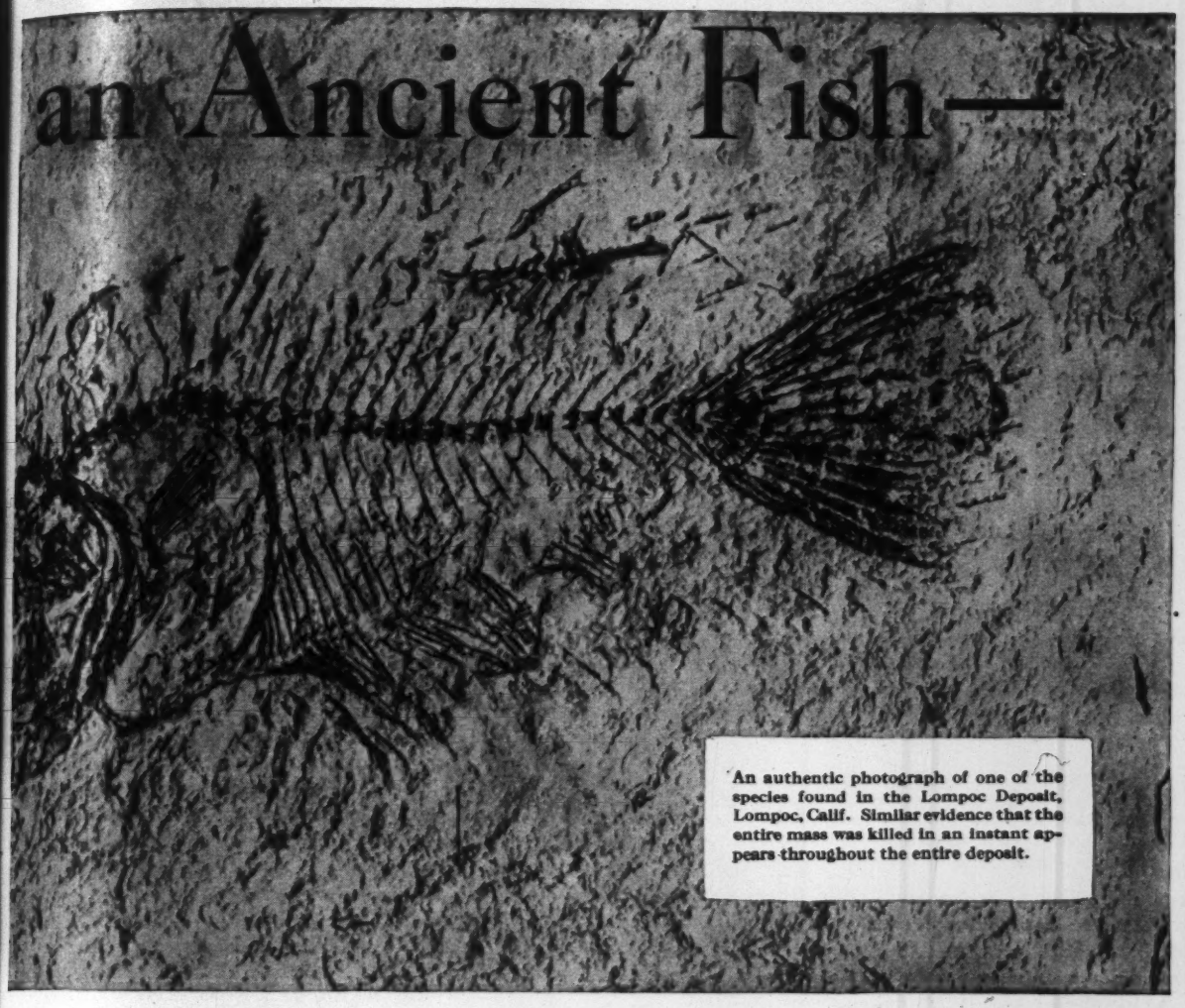
By insulating one of their brass annealing furnaces, the Chase Companies Inc., Waterbury, Conn., reduced the fuel consumption 3.9%, a net annual saving of over $600 per furnace. This saving represents an annual return of 89% on the investment in the insulation. Temperatures range from 1000° to 1250° F.



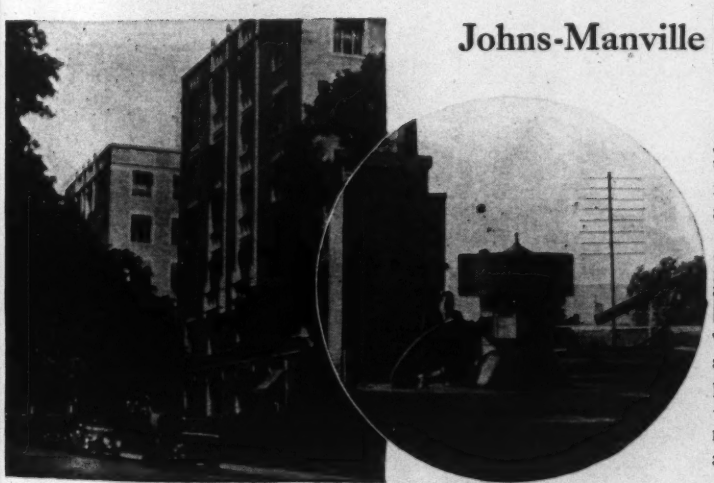
"Up to 2100° F... 51,000 gallons of oil saved annually"

Temperatures in the checker chambers of an open-hearth furnace in the Lukens Steel Co. plant at Coatesville, Pa., run as high as 2100° F. J-M Insulation is in service on the regenerators. Records of fuel consumption show that this insulation saves 51,000 gallons of oil annually. After subtracting the yearly charges for the insulation, there is a net annual saving of $1,497.26, an annual return of 60.3% on the investment.

an Ancient Fish—



An authentic photograph of one of the species found in the Lompoc Deposit, Lompoc, Calif. Similar evidence that the entire mass was killed in an instant appears throughout the entire deposit.



Johns-Manville *blows* cool weather through a hose . . . shuts HEAT *out*

Johns-Manville Home Insulation, which has contributed so greatly to the comfort of the individual residence, applies equally well to apartment houses and hotels.

The Riverview Manor Apartments, Harrisburg, Pa., couldn't keep the top floor of the building cool and comfortable during the hot summer months.

A test area of 600 sq. ft. in the top-floor ceiling was chosen, J-M Home Insulation *blown* into this space. Temperature measurements conclusively proved its value. The entire ceiling—13,000 sq. ft.—was then insulated. Now all the top-floor apartments are *cooler* during the hot summer months, and are consequently rented.

Johns-Manville

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Controls

HEAT, COLD, SOUND, MOTION

Protects against

FIRE AND WEATHER

will ultimately face the same situation unless business improves much more rapidly than seems possible.

Toledo expenditures for poor relief have risen from $65,000 in 1929 to $500,000 in 1930 and $1 million in 1931. The year 1932 started off with curtailed relief because of lack of funds but costs were still at the rate of $110,000 a month. Relief expenditures have become the most important item in the city budget.

Another exhibit is New York, reputedly the wealthiest city in the world. Frank G. Taylor, public welfare commissioner, recently reported $39 millions available to carry on relief work until June 1 against a required $45 millions to take care of the 750,000 persons expected to need help. He urges a state bond issue of $200 millions to expand public works and to reimburse cities for relief expenditures.

New York Needs

The New York state $20-million fund for relief is about depleted and conferences are being held to decide what shall be done. Work bureaus of the Temporary Emergency Relief Administration, in charge of the fund, are employing 62,000 persons while 105,000 others have been found to be in want but have not yet been provided with work or relief.

For New Jersey, Emergency Relief Director Chester I. Barnard, president New Jersey Bell Telephone Co., estimates the total personal aid requirements for the year at $250 millions, with 225,000 unemployed. Only 12% of the needed sum is being provided by public officials and he urges the state to reimburse cities up to 75% of their relief expenditures. During the next 3 months he expects 500,000 jobless will need help. A survey of New Jersey municipalities discloses that 58 are financing relief from current revenues, 20 are borrowing under budget and bond acts; 277 are borrowing; 12 use voluntary subscriptions; 168 employ combinations of these methods.

Relief Expenses Increase

A survey just completed by the Russell Sage Foundation discloses that in 81 large American cities relief expenditures for 1931 were 4 times as great as those for 1929; for unemployment relief alone, the increase was nearly 5½ times. Public agencies spent about 75% of the total with a slight falling off in this proportion during 1931.

There were striking increases in relief demands during the last 3 months of 1931, with December establishing a new high level in almost every city. For the group, December totals were 40% above the already high total of November and, if past experience is repeated, further increases have been made, since the usual peak of relief demands comes in March.

Work relief, to supplement direct relief, is an important feature of the program in 34 of the 81 cities. The proportion of relief expended for work has risen from less than 0.1% in 1929 to about 25% in 1931. In New York public and private work relief bureaus distributed more than $3 millions in work relief wages during December, alone.

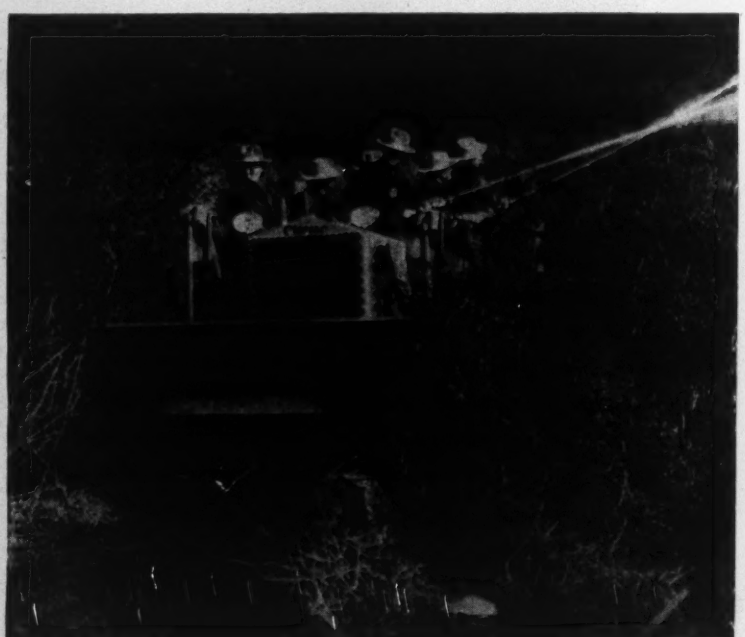
Attack on Depression Must Center on Commodity Prices

That is the real meaning of the Reconstruction Finance Corp. and the Glass-Steagall program

It is now evident to almost everyone that the key to the depression and to recovery lies in the single word "prices." The *Congressional Record* is full of pronouncements on the price level, the value of money, the gold standard, currency and credit control, and other esoteric matters, by congressmen and senators whose economic insight into their importance is often astonishing and usually unappreciated. At least a half dozen bills have been introduced bearing on price stabilization, devaluation, currency inflation, and other ideas which have grown out of the drastic price decline.

Farm organizations are active in support of some of these measures, and currency reform leagues of every shade are active in the hinterland, while the crop of money cranks cultivated by every period of declining prices is springing up everywhere. The movement for revision of the anti-trust laws to stop persistent paring down of the price level by desperate competition is at bottom a symptom of the same underlying condition. The Administration's emergency banking and credit measures are after all merely an unconscious effort to check the decline of prices and overcome its effects.

This effort is directed to the only point where influence can immediately



International News

Forest Fire Fighters—*The hill-climbing fire engine of the Los Angeles Fire Department protects the city's mountain highways, can carry 1,000 gallons of water and 9 men up a 62% grade regardless of roads*

Goodrich *slashes* Trucking Costs

RECENTLY Goodrich announced an important contribution to trucking economy — a tire that will deliver MORE miles, FASTER miles, SAFER miles, CHEAPER miles than any truck tire ever before built . . . the new Goodrich Silvertown Truck Balloon . . .

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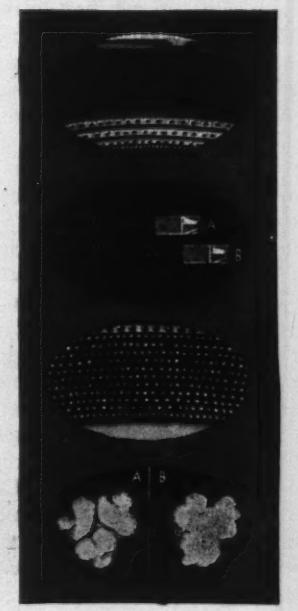
Microphotograph (A) shows cross section of cord in the new Goodrich Truck Tire. Note the rubber particles in the very heart of the cord. *Each cord is impregnated with a high-grade rubber compound under pressure of 250 pounds per square inch* — Microphotograph (B) shows cross section of cord in an ordinary truck tire — *no rubber inside it.*



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Wide World

OIL QUIET—*Oil turned Venice, California, from an ocean resort to a boom town; price cuts and production control brought bankruptcies; the "Grand Canal," once a beauty spot, now an oily ditch, is quiet again*

be brought to bear—on the prices of fixed capital in factories, railroads, utilities, public works, real estate, in the hope of preventing the writing down of values represented in mortgage liens and equities to correspond to the decline in value of commodities and services. This first point of attack on the collapsing price structure became imperative in order to protect an important class of debtors from default—banks and insurance companies, who have borrowed from depositors and policyholders vast sums which cannot be paid because the value of the fixed capital in which these sums were invested has declined.

"Standstill" on Securities

The methods of protecting these vital institutional debtors through the National Credit Corporation, the Reconstruction Finance Corporation, and the Glass-Steagall bill's changes in the Federal Reserve Act have 2 aspects: first, a sort of standstill arrangement or moratorium by which these securities are removed temporarily from the open market and sold to the government or the Reserve Banks, somewhat as the surplus wheat and cotton have been sold to the Farm Board; second, the manufacture through the Reserve System of more money and credit to replace what has been withdrawn from use by bank depositors who have been paid by their bank debtors and are hoarding the money, and to replace the credit which has been destroyed by banks as their debtors have paid up. In these ways, the theory is, new purchasing power manufactured by the banking system and the government will come into the security market to support or even raise the prices of the remaining securities offered for sale.

But it is fairly well recognized that the prices of securities and similar claims to ownership of fixed capital depend not only on the supply of them offered for sale or the purchasing power available for investment in them, but ultimately upon the earning power of the fixed capital itself, or, in the case of government securities, the income of government. This depends upon the relation between the prices of the goods and services for which business concerns and governments spend money and the prices received for the goods and services they sell.

Thus it has become obvious that the price of securities and the value of real estate, as well as the public credit and the safety of the banks and other financial institutions, rests ultimately on the prices of commodities and services and the relations among them. The great institutional debtors—banks, insurance companies, governments—depend for their solvency upon that of other individual debtors—bank borrowers, corporations, policyholders, real estate owners, taxpayers—and the solvency of these rests in one way or another on the commodity price level.

Changes and Causes

The ramifications of the commodity price level in the depression picture and the causes of the collapse in it are far-reaching, complex and confusing to most business men. But they are crucially important for recovery, and in this and succeeding articles some attempt will be made to clarify them. There are 3 important aspects to the problem: first, the influence on business of widespread and drastic changes in the general or average level of commodity prices; second, the causes of such changes; third, the relation between prices of different classes of commodities and services as it affects the problem of business recovery or readjustment.

The first and most important fact to be borne in mind is that every severe and prolonged business depression in the economic record has been accompanied and caused by a drastic change in the general commodity price level. Moderate or slow changes in the level of commodity prices do not greatly affect business; it is elastic and fast-moving enough to adjust itself to them without breaking down, although there is some reason to believe that this elasticity has decreased as the business system has become more complex and international in scope.

Defining Depression

The inelasticity of prices in certain industries and certain groups, and especially in certain countries, has been an important factor in the breakdown accompanying the price collapse during this depression. But this is a question separate from that of the change in the general price level itself. It can be said at least that since the beginning of the century any decline in the general price level amounting to as much as 10% in a year has meant business depression.

The basic reasons for this are by now fairly obvious. A decline in price levels of that proportion in such a period must mean an almost proportionate decline in current income of producers and business concerns, for an increase in production efficiency or per capita output of anything like that much cannot be expected. Declining income means lowered power to pay debts. At the same time, a fall of 10% in the price level means that fixed debt charges may be as much as trebled, if the average charge on fixed capital is about 5%.

This becomes impossible to meet except in the most productive and efficient industries. Even in these it becomes impossible if the decline proceeds at that rate for 2 or 3 years. The fixed debt in the United States, public and private, in 1929 was fully 50% of the national wealth, and the decline in commodity prices and other values since then has raised it to fully 75%. Studies by *The Business Week* show that the real per capita debt burden in the United States has increased from $600 to $900 in the past 10 years, while the national income has declined at least 40% since 1929. Obviously the national wealth must be drastically written down, and every kind of debt with it, unless the commodity price level is restored.

Most Prolonged Collapse

The collapse of the commodity price level since 1929 is not the largest on record so far as the extent of the drop is concerned, but it has been the most prolonged. It has gone on at a rate of about 10% a year for over 2½ years. One other thing about it makes it noteworthy. It is the most drastic decline from a normal peacetime level, during which the prices of various classes of commodities and of services had continued in fairly stable adjustment for nearly 8 years, and the great bulk of private indebtedness, domestic and foreign, had been contracted on that basis.

The price decline from 1920 to '21 was a drop from a recognized inflated wartime level to one corresponding—at about 50% above pre-war—fairly well with the increase of world gold stocks and the increase of per capita production of commodities since 1914. The only debts greatly affected by that drop were the governmental war debts.

Superstructure of Debt

From 1921 on, however, this country and the world accumulated through credit expansion an enormous structure of private debt on top of the war debt. This combined burden could have been carried if the commodity price level—which remained fairly steady till 1929, with variations of not more than 10% either way during the whole period—had been maintained. The decline since 1929 was not a necessary part of the post-war readjustment of price levels such as followed previous war periods in our history. It was outright deflation, due to factors wholly within control of the world's banking system and governments. Until those factors are clearly understood by the business community it will probably be impossible to overcome their effects and correct the error.

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New York	10.00	3.40
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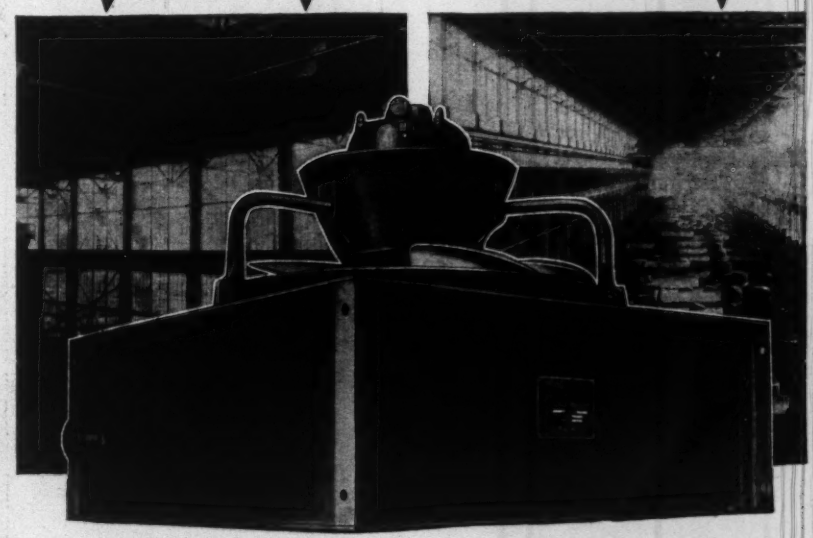
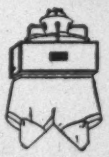
"FLOODLIGHTS" OF HEAT





Illustrated above is Type H C Heater. Various discharge outlets can be used with this heater. Herewith is shown design No. 8, as well as in photos above.

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WING Featherweight UNIT HEATERS

Textile Stabilization Takes Many Interesting Forms

Cotton curtails production, silk mills get together, rayon protects quality standards

PERHAPS because it better recognizes its need than many other industries, the textile industry has been in the van of the current movement looking to better industrial stabilization. Most significant recent event in the campaign was the announcement that 90% of the print cloth mills—a very important part of the cotton textile industry—had agreed to a curtailment program which will avoid overproduction and help to stabilize employment.

The program provides that for 6 months from March 1, day-running mills shall not exceed 90% of their normal operating capacity or 50 hr. per week; that mills running on a 55-50-hr. day-night schedule shall operate at a maximum of 80% of normal; that mills running 105 hr. per week or over shall curtail to not more than 75% of previous schedules.

Customers Urged It

This movement got under way on the initiative of representatives of important cotton converters—chief customers of the print cloth mills—who urged curtailed production to halt demoralization of the market.

Cotton has not monopolized the stabilization activities of the industry. Silk is trying hard to improve its condition. Last December the Throwsters Research Institute was organized by silk mills with a million spindles—about 50% of the total—to push the adoption of the 5-day week to limit output, legislative cooperation, better cost accounting methods; and to establish and operate a bureau of claims and abuses. A Silk Manufacturers Association has been formed by leading Paterson concerns to curb trade evils.

Rayon Tries Again

The rayon industry has had hard sledding in its cooperative moves. Two associations have started and stopped within 5 years but activities now under way promise to furnish effective substitutes.

All important rayon producers—there are only half a dozen—have now agreed to submit production data to Tubize Corp., one of the group, for collation and analysis. Whether this activity develops into a third association or not it bids fair to pinch-hit for one until it comes along.

Other important moves in rayon have been cooperative efforts to promote better quality. First move has been made by rayon producers, who offer labels for use on rayon products whose production involves adherence to certain quality standards. This movement, not fully under way yet but showing promise for future development, has been supplemented by a cooperative program of rayon knit fabric mills to promote quality rayon fabrics in an effort to offset current trends toward inferior fabrics.

Members of this group include firms using rayon produced by DuPont, Glanzstoff, Industrial, Tubize, and Viscose companies. They plan to offer labels of varying colors for different quality ranges which will be sold to manufacturers who make up garments according to standards to be set by the rayon group. An advertising campaign to push these labeled products is being considered.

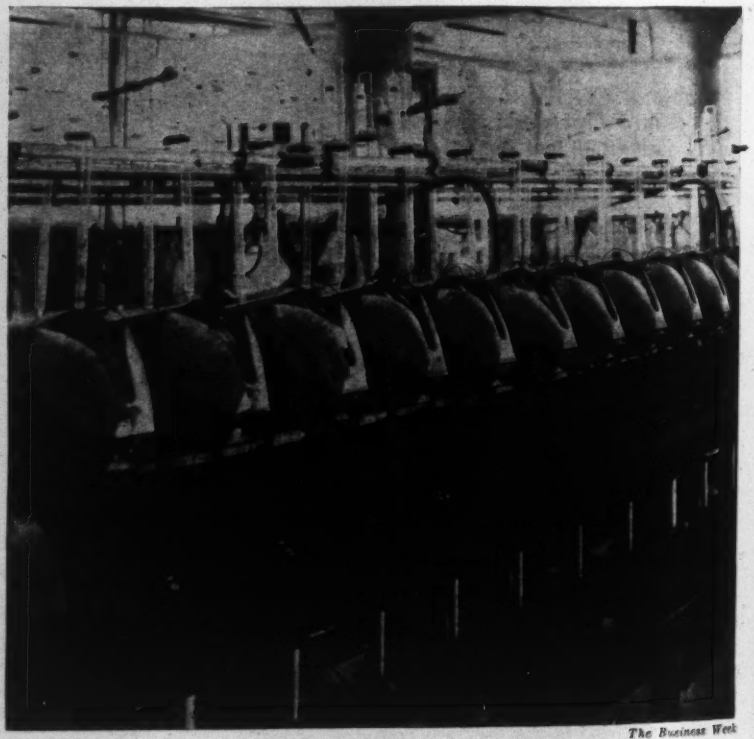
Curtailment has been particularly effective in the combed cotton yarn industry. A. G. Myers, president of Textiles, Inc., recently announced that the 21 mills in this chain would not resume night operations or manufacture without orders and shipping instructions. Manufacturing to order only has been recently made the policy of Cheney Brothers, which offers small lots of goods to order on somewhat longer deliveries than is customary.

On Part-Time Basis

During January 900,000 combed sales yarn spindles in the Carolinas were being operated on a 55-hr. week basis; others were running 35 hr.—about 65% of the normal week; still more were running day and night at a general average of 40% of normal capacity.

At a meeting held in January representatives of the wide sheeting group of the Cotton Textile Institute reported widespread 25% cuts in operations of day and night-running mills, 20% cuts by day operators. Greater cuts are being planned to keep output in line with demand.

Six members of the Durene Associa-



The Business Week

RAYON MAKER—*This is the machine, devised by Furness, of Gloucester, N. J. (BW—Nov18'31), built by Budd, of Philadelphia, which spins cellulose solution into the silky threads being wound on the spools below*

tion and 3 non-members, representing 90% of the mercerized yarn industry, have adopted a new form of contract to curb contract-jumping, which has been particularly disadvantageous to the concerns preferring to adhere to their obligations. All yarn will be sold by these mills hereafter on firm contracts with specified sales conditions and prices. Contract will not be cancellable except for cause and with the agreement of both parties.

Turmoil in Far East Leaves The Silk Market Undisturbed

WITH only a handful of countries does the United States quite consistently run an unfavorable balance of trade.

Outstanding among these are Japan and Brazil. Reason: our very heavy demands for silk and coffee; their increasing, and important, but almost always much smaller demands for manufactured products and for 2 or 3 important raw materials.

Few Americans realize that these 2 products—silk and coffee—vie with each other for first place among all our imports almost every year. Silk is strongly in the lead over a period of years, but in 1930 coffee forced itself ever so slightly ahead.

Whether or not the importance silk holds among our imports is generally realized, there has been a deal of speculation over the trouble in the Far East and the effect it may have on importers, on the industry in this country, and on the retail price of silk.

Pennsylvania and New Jersey boast the largest share of the silk textile industry in the United States, but it is on the New York silk exchange that prices are determined, and in the Silk Association of America that vital statistics for silk are kept. Here are some of the data and opinions which silk economists offer in appraising the present situation:

How Stocks Stand

(1) Stocks in storage in this country at the end of January totaled nearly 63,000 bales, or roughly 5 to 8 weeks' supply for domestic mills;

(2) Stocks in transit from Japan totaled 48,500 bales;

(3) Prices so far have not increased. Whereas the yen has depreciated more than 30% since Japan suspended the gold standard in December, silk prices in yen have failed to rise more than 20%, leaving a net decline of about 10%;

(4) Imports usually lag from March through July, are heaviest from October through December;

(5) In the last 10 years, Japan has furnished from 82% to 88% of American silk imports. China is the second source, Italy third, but volume from both is negligible;

(6) Volume imports in 1931 exceeded every year in the last 5 except 1929.

(7) Unless some unexpected turn of events should result in a break of economic relations with Tokyo, there are no factors in the present situation to cause any unusual rise in silk prices. If Shanghai silk is temporarily prevented from reaching the American market, Japan's surplus will replace it.

Other Fabrics Gain

The trade is alert to 2 other factors. Fashion experts have recently decreed cottons for women's summer styles. And rayons continue to make steady progress.

The possibilities rather than the probabilities in the present situation are creating speculation on far broader trends.

More than 65% of Japan's exports are textile products. Of this amount, nearly 40% is raw silk, and more than 90% of all raw silk exported goes to the United States. Cotton goods, next in importance, make up about 20% of all Japanese exports, go especially to China and India. Thus Japan is importantly dependent on 3 export markets, but especially the United States.

It is to counteract this extreme dependence on a few export markets that Japan has tried to expand the markets for her silks in Europe and Asia, and for cotton goods in the Far East and South America. Her successes have cost the British textile industry a large part of the coarse cotton goods markets throughout the Near and Far East.

Likewise there have been some moves in this country to be less dependent on Japan as a source of raw silk. Imports from both China and Europe have increased in recent years though they are still very small in comparison with Japanese imports. China, particularly, with cheap labor and favorable growing conditions, has imported experts to help meet American market qualifications.

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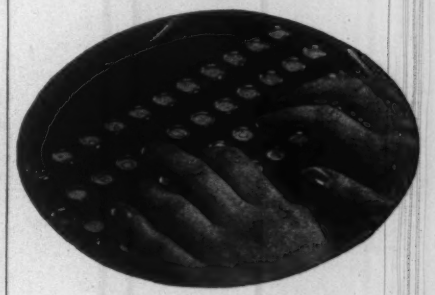

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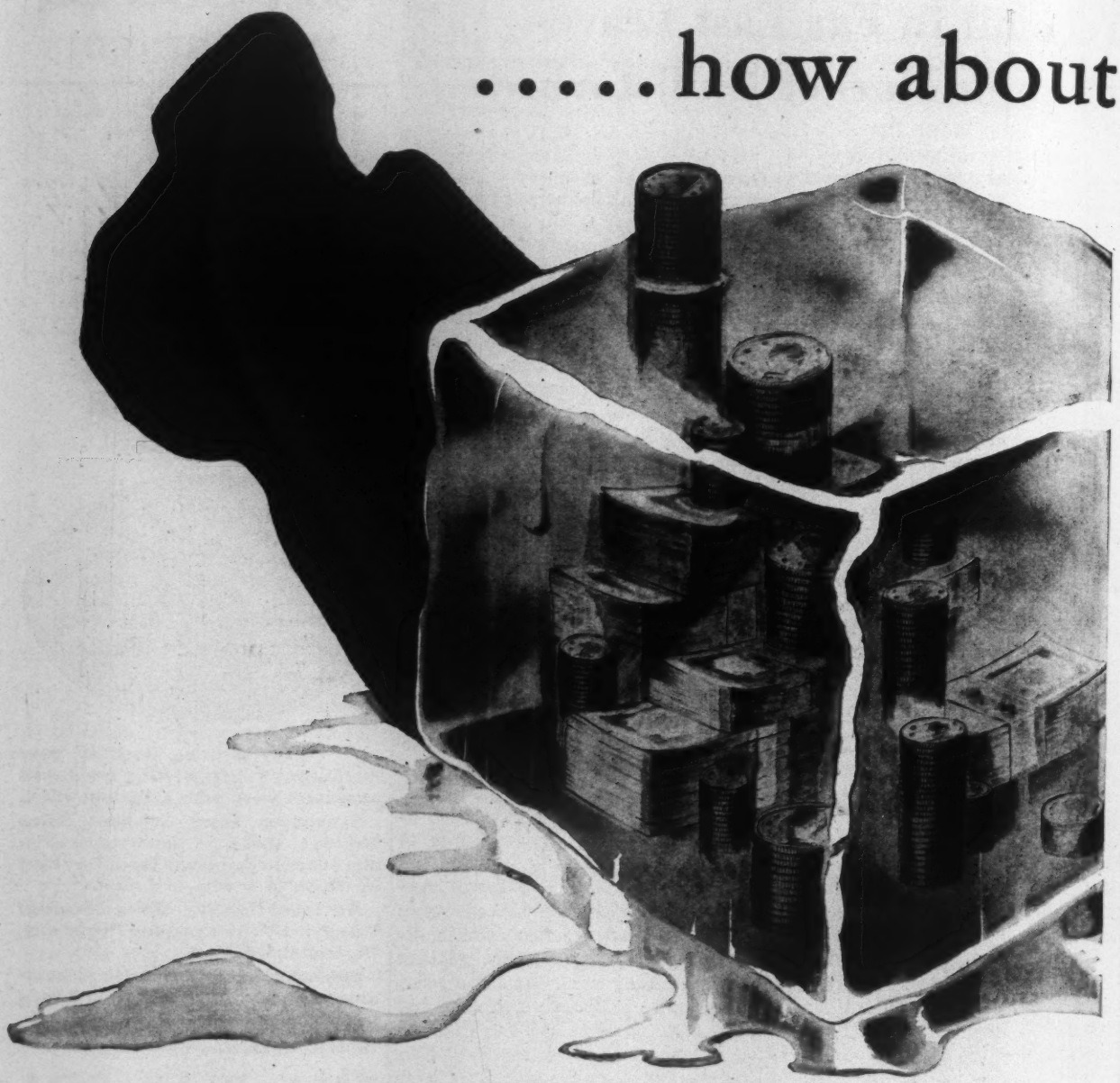

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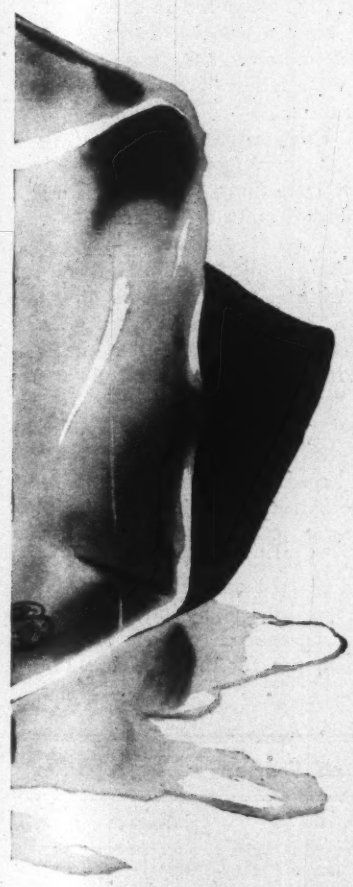

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Second 5-Year Plan of Soviets Promises Comforts for Workers

Housing projects and consumer industries center of program characterized by its sobriety

IN 1927, Russia startled the world with the announcement of a Five-Year Plan. From the production of shoes to the erasing of illiteracy, it systematized every form of development in the country, but stressed above all "economic planning." It was to be accomplished before October, 1933.

This year Moscow is planning the final moves to complete the giant project 9 months ahead of time. Some branches have succeeded beyond all expectations. Oil production and farm collectivization are notable examples. Others have fallen behind badly. Metal production —especially steel—and rail transport have failed to meet the requirements, have at times seriously jeopardized some of the large construction projects. But, in general, Russia has succeeded in a grand way in carrying out the initial scheme. The severest critics admit that.

Preliminary announcements of the proposed "control" figures, or quotas, for the second piatiletka (Five-Year Plan) are coming out of Moscow this week. They are still incomplete, but trends are predicted and the few control figures which are already released indicate what Moscow has in mind.

A New Conservatism

Where the first Plan startled with its radical "quota" system, its almost fantastic goal of industrializing a nation of 160 millions within 5 years, the second Plan is characterized by its sobriety, its relative modesty.

Coal production, for example, is scheduled to reach an annual production in 1937, the last year of the second Plan, of 250 million tons instead of the fantastic 650 millions forecast some time ago when the Soviet officials still thought they could (or at least said so for domestic consumption) surpass American production by 1937. The new figure was determined after output for 1931 was revealed to have fallen seriously behind schedules. But because coal is essential to the success of many other industries, every effort is being concentrated upon meeting the 1932 schedule of 90 million tons.

Iron and steel are other examples. The Soviets have fallen down badly in meeting original quotas for these 2 important products. First plans called for annual production of some 10 million tons. Production last year scarcely touched 5 millions. The revised control figure for 1932 is reduced to 9 millions. The original dream was to reach 62 million tons by 1937. The preliminary control figures just announced reduce this to 22 millions.

Big Power Projects

If the Soviet is backing down on certain production schedules, it decidedly is not on others. Electric power production, which surpassed 10 billion k.w.h. for the first time last year, is scheduled to rise to 17 billions in 1932, to 100 billions in 1937.

For oil, the figures are left comparatively less definite. Production in the first 5 years of planned economy has far exceeded expectations. For 1937, the quota is placed at "from 2½ to 3 times 1932 production." Copper production, as well as that of most of the other non-ferrous metals, is "to increase output sufficiently to meet the needs of domestic industry." The production of cotton cloth is to be stepped up "so that per capita consumption in 1937 will be from 2 to 3 times what it is in 1932."

Because there is a certain indefiniteness in these preliminary announcements, it is not to be construed that Russia is abandoning the "plan and quota" system. Before the end of the year new quotas for 1933 will be announced; perhaps more definite figures for the 5 years will be included. But the Soviets are sufficiently sure of themselves now to wait until they can see what is likely to develop in this depressed world in the present year, and what the workers are able to do in meeting the 1932 control figures.

When the first Plan was announced there was no depression and no Far Eastern crisis. Jingoists had their full fling of predicting world calamity from the Soviet scheme. As the 5 years draw to a close, and with the whole project comparatively successful, there is a surprising lack of worry that Russia is about to flood world markets. It is evident that the Soviets are no supermen. They are simply working under a different plan to arrive at the same ends. Some of their failures are as striking as their successes.

Concentrates on Comforts

Observers look on advance information concerning the new piatiletka as a shrewd move by Moscow. It concentrates on "consumer" industries, on housing projects, on transport. Better housing is to start in the great industrial centers—Magnitogorsk, Kuznetz, Kharkov, Stalingrad. It is already well under way in Moscow, Nizni Novgorod.

The theory behind the decision is that well-housed workers, cheered with a growing supply of comforts—small and crude as they may seem to the average American—will help the government to cut the very large labor turnover. If skilled workers, once trained, can be kept on the job, production can be speeded, quality improved. Products of apprenticed workers may not be up to par for distribution abroad, but

Russia's Planned Economy

	Actual Output		*Quotas*		
	1925	*1931*	*1932*	*1933**	*1937*
Coal (000 tons)	17,600	56,000	90,000	75,000	250,000
Oil (000 tons)	7,200	22,300	35,000	20,800	2½ to 3 times 1932 output
Pig iron (000 tons)	1,500	4,900	9,000	10,000	22,000
Steel (000 tons)	2,100	5,300	9,500	10,400	.....
Copper (000 tons)	12	48.8	100	84.7	To satisfy domestic needs
Electric power (billions kw.-hr.)	2.27	10.6	17	22	100
Cotton cloth (millions meters)	2,030	2,470	3,061	4,700	.....
Sown Area (millions acres)	265.75	341.5	360	354	400 to 425
National Capital Investment (billions dollars)	2.7	15.3	19.7	9.8	.....

*October, 1932, to October, 1933; last year of 5-year plan as scheduled in 1927. Fiscal year now calendar year.

The Business Week

they will satisfy the demands of domestic consumers.

Russia seems destined in these preliminary announcements of the new Five-Year Plan to be settling down to a period of intensive internal development, of meeting the social needs of the people who have sacrificed for 5 years to "put their Plan across."

British Tariff Exemption Relieves Copper Exporters

DISAPPOINTED at the failure of consumption to show any pickup, and with price of copper back at its all-time low, copper producers again are in a huddle to determine what, if anything, should be done. The recently arrived Katanga officials are among the deliberants.

Great Britain's threat to place a 10% import duty on copper along with many other commodities, beginning Mar. 1, complicated matters a great deal. It was feared as a signal for similar action elsewhere, as a further spur to tariff advocates here in their fight for protection not only of the raw metal but of goods manufactured of copper, and a blow to the worldwide curtailment agreement that went into effect on Jan. 1.

So it was with a deep sigh of relief that the trade here received this week the announcement that Great Britain had decided to keep copper on the free list. Largely responsible for this is understood to have been the tremendous pressure brought to bear on British authorities by influential London Metal Exchange members and Canadian producers, who realized the disastrous effect of such a move. Whether the British government can also be persuaded to keep lead and zinc on the free list, is not yet certain. Failure to do so, it is said, would necessitate important changes in the terms of the international agreements at present in force in these metals.

Demand Remains Slack

To make matters worse, the expected revival of consumption after the turn of the year has not taken place anywhere. Demand for copper remains dormant and current output, despite the recently effected worldwide curtailment of operations to almost one-fourth of capacity, is still ahead of consumption. Result is that stocks of refined copper in the hands of North and South American producers continue to pile up. *Metal & Mineral Markets* estimates them to be in the neighborhood of

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570,000 tons, an increase of about 90,000 tons since October.

Thus it is not surprising that almost everyone in the industry is sick of curtailment and that the idea is gaining that a worldwide shutdown of mines is the only solution.

It is doubtful, however, if the complete cessation of mining operations will meet with universal approval. The first discordant note was heard this week with the announcement from the powerful Katanga that it could not accept such a proposal because the life of the whole colony depends on the activity of its copper mines. Harmony in producers' ranks is no longer what it was a short while ago.

Correction: Farm Board Lends for Marketing

THE resentment of tobacco planters against the Farm Board, reported in the Jan. 6 issue of *The Business Week*, was apparently misdirected. Referring to the statement that "collectors of the Farm Board meet planters at warehouse doors, demanding a portion of their slim $10 and $25 checks . . . requiring immediate repayment of seed and fertilizer loans," Edgar Markham, assistant to the board's chairman, notes that its loans on tobacco have been made to the cooperative marketing associations for marketing purposes; that any government seed and fertilizer loans to planters were handled by the Drought Relief Department of the Department of Agriculture.

Rising Accident Rate Boosts Insurance Rates

INSURANCE companies writing accident and health coverage will revise their rates upward on Mar. 1. There is not likely to be any uniformity in the rise. One leading company estimates its increase will be from 10% to 15%.

In the last 5 years the companies have had an unfavorable experience in these lines due to increased automobile accidents. Few companies have shown profits.

New policy forms will be issued in which various clauses will be readjusted, based on the issuing company's experience.

Last available figures show that in 1930 of a group of 18 companies with a nationwide coverage the average ratio of profit was 2.5% but only 3 companies showed any profits.

Business Abroad—Swift Survey Of the Week's Developments

Britain and the United States are increasingly concerned over the developments at Shanghai. . . . French Bourse is buoyant in the face of continuing industrial disintegration. . . . Germany has not improved, despite temporary encouragement due to bank reorganization and partial reopening of the Boerse; is probably headed toward a moratorium. . . . Italy is stationary. . . . Chile is likely to abandon peso stabilization. . . . Outside of Britain, there are no distinctly encouraging foreign developments. The problem of trade barriers remains serious.

Europe

EUROPEAN NEWS BUREAU (*Cable*)—European business showed no positive or negative major impulses this week.

Among the commodities:

Cotton seems to be at an apex though textiles are showing some revivification, particularly due to better overseas demands and to the Indian crop which is 22% lower than last year. Wheat has not held its recent price pinnacles, notwithstanding the fact that the statistical position is stronger. Greater European purchases are now definitely in prospect. Jute has strengthened. All other commodities are lower, with copper distinctly weak.

Sterling Strong

Securities, except in Paris, show signs of reaction from the recent rally. The technical strength of sterling, and recovery of the dollar as inflation fears have diminished, have featured the week's activities on the exchanges. It is a premature disposition to read long-term significance into Britain's cut in the bank rate, promptly followed by Norway and Sweden, as indicative of the formation of a so-called sterling bloc, or confederation, of off-gold managed currencies which might eventually come to include Scandinavia, South America, Japan, and the sterling-linked Egypt, India, and Australia. Sterling momentarily has indisputably improved, but its economic basis is as yet wholly unestablished.

The long pending reorganization and refinancing of German banks has been announced. Dresdner Bank absorbs Danat Bank under Reich participation, and Commerz Bank absorbs the important provincial Barmer Bank-Verein, while the Deutsche Bank-und-Diskonto-Gesellschaft remains independent.

Politics again is holding public interest. Revision of the French cabinet signifies no change in policies, though a gain in Fascist tendencies. Reassembly of the Reichstag re-tests Bruening's parliamentary horsemanship. Betting favors his survival, and also Hindenburg's reelection. The Far Eastern situation is still of relative inconsequence to the Continent but is causing uneasiness in England which must bear the brunt of any punitive measures, and which has never been more reluctant to play the rôle of international policeman than at the present moment when she is engaged not only with her own economic re-equilibration but with empire integration.

Holland and Belgium Borrow

Nevertheless, England is cheered by the cut in the bank rate, by the strength of sterling, and by the expectation of early removal of exchange restrictions. Conversely, Continental conditions are worse. The French economic structure is increasingly unhealthy. Holland for the first time since 1924 has been forced to resort to public borrowing to the extent of a $100-million issue; Belgium plans a $60-million issue. Both issues are partly conversion measures and partly to cover budget deficits. Germany has not improved and Europe just now is awakening to the prospect of a moratorium in the Reich. Already Young Bonds have declined. Austria, given the choice between suspending debt payments or further throttling imports, has decided on the latter and is pleading for international understanding of its desperate situation and asking, instead of reprisals, for the cooperation of neighbors toward developing a preferential Danubian union.

Germany

Industrial outlook unimproved. . . . Bank reorganization, and partial reopening of Boerse encourage business. . . . Unemployment probably has passed winter peak. . . . "Fighting" tariff planned.

BERLIN (*Cable*)—Outstanding event of the German business week is the carrying out of the long-postponed bank reorganization. Actually it is the paying of the bill—nearly $200 millions—which Germans must foot for the liquidation of the bank crisis last July. But just as truly it is a gallant effort to make a fresh start toward restoring public confidence, and putting the country's largest banks on a firm basis.

Reich Biggest German Banker

The fact that the government and the Reichsbank automatically have control now of 2 of the Great German banks as a result of the method employed is no more pleasing to the government than to the banks. It is, for the time being, the only way out because of the paralysis of private capital resources. It is already emphasized by the Reichsbank, however, that it is its desire at the earliest possible date to resell the bank shares which it has been necessary now to buy, and thus reinstate the private character of these banks. Perhaps the most unfavorable feature, from the business point of view, is the fact that the government, through control of the shares, becomes also the virtual controller of whole branches of industry, for in Germany, as in most other Continental systems, banks often own controlling interests in big businesses.

The ill-fated Danat Bank loses its identity in the Dresdner Bank, into which it is merged. The Commerz-und-Privat Bank is refinanced by the government. But the Deutsche Bank-und-Disconto-Gesellschaft, though aided by the Reich, managed a sufficient share of its financial reorganization to maintain complete control within itself. In the new setup, the Dresdner bank becomes Germany's largest.

Money Easier in Berlin

The easier tone on the money market, with the private discount ½% below the official bank rate, stimulates, and to a certain extent, justifies the demands of business that the Reichsbank follow the lead of the Bank of England and cut the bank rate, but the uncertain political outlook and exchange situation support the Reichsbank's opposition.

Decision to reopen the Berlin Stock Exchange premises, which have been closed since last September, is a tentative test step in the trend back to normalization. Official quotations will not at first be allowed, and publication of prices is prohibited. The government will follow prices closely before agreeing to full return to normal trading. In spite of these limitations, prices on the unofficial curb market reacted promptly upward on the announcement, and Berlin confidently expects that pub-

lic investment interest will be revived with the return of even this semblance of normal trading.

The increase in the unemployed by only 85,000 in the first half of February suggests that the winter peak will be reached in February or early in March, though the general building paralysis augurs minimal improvement this spring. The situation in the heavy industries continues to be critical.

Dismayed by rising tariff barriers abroad and urged by industrialists claiming a more active tariff policy, the government plans a maximum, or "fighting," tariff against countries which have no trade treaties with Germany or which discriminate against German exports. Canada, Australia, and Poland will probably be the first to suffer.

Wide World

COFFEE TO BURN—*Getting up steam on a Brazilian locomotive with a mixture of coffee and coal. Attempts to use up the great surplus are not too successful; much is still dumped at sea*

France

Bourse buoyant, but industrial activity declining. . . . New quotas give Germany preference on important machinery imports.

PARIS (*Cable*)—The new Tardieu–Laval ministry is merely a reshuffling of the former Laval–Tardieu administration, with emphasis now on Tardieu's flair for organization. First example is the telescoping together under a single portfolio of several important spending departments such as the army, navy, and air ministries, and the commerce, post, and telegraph ministries. No major changes in policies are foreseen.

Paris Bourse Buoyant

The Paris Bourse, notwithstanding a 40% climb from December lows, and in spite of the manifest deterioration of local economic conditions, is still buoyant. Except for a very slight revival in textiles, all other industries are operating on a hand-to-mouth basis. The increase in unemployment shows no sign of slackening. January revenues are significantly below December. Fiscal conditions are now definitely expected to become acute before the yearend.

Flour and leather have been added to the list of items to be imported on a strict quota basis. Franco-German agreements have been reached on quotas for cotton hosiery, rayon, gas apparatus, machine tools, tooling and woodworking machinery, printing machinery, precision instruments, tractors, plumbing fixtures, and cold rolled sheet steel, but quantities have not yet been announced. Negotiations covering Diesel engines, hoisting machinery, and textiles are still in progress. The majority of the above items are tangent to American interests. Although the French Minister of Commerce politely disclaims any policy of preference for Germany or any discrimination against the United States in the quotas hitherto accorded, Germany, characteristically, has been accorded the lion's share though, admittedly, totals are below Germany's normal exports of these products to France.

Recent excessive radio quotas for Holland and Germany which remained unexhausted at the end of the first month have been sharply reduced, but the United States' quotas (which from the first were absurdly low) have not been enlarged. Anti-quota protests from French export interests, notably the woolen industry and Maritime Chamber of Commerce, both of whom fear reprisals, have as yet failed to affect the government's policy.

Italy

Business unimproved. . . . Dividend cuts discourage financial markets. . . . Further economies in new shipping merger. . . . Rome tries to supplant quota system with substantial international agreements.

MILAN (*Cable*)—Not a single visible symptom of trade recovery can yet be traced in Italy, but observers are inclined to see in the present conditions a tendency to mark time rather than to deteriorate further. Only minute optimism can be gleaned from the fact that wholesale prices are of late declining in a constantly smaller range.

Dividends Are Cut

Financial markets are no more hopeful despite an encouraging, though small, upward turn for a number of quotations. Real factor in molding opinion is the gloomy series of dividend cuts which range from a one-third slash by Banca Commerciale Italiana to complete omission of dividends by such popular companies as Fiat and Adamello Electric. The trade balance was unfavorable in January.

Two items in the week's shipping news are of more than local interest. The first is the newest move in the general consolidation of the Italian shipping industry, following the recent significant move uniting the 3 great transatlantic lines into a single unit known as Italia here, but popularly accepted as the Italian Line in the United States.

The current merger unites Navigazione Florio, controlling 14 steamers plying in the Italy–North Africa service, and Citra, which has 20 steamers operating in the Italy–East Africa trade. The merger is expected to become

effective in mid-April when the merged interests will be known as Tirrenia.

Significant of the economy of Italian shipbuilding is the announcement of the launching this week by Cantieri Adriatico, important shipbuilding yard, of a 16,000-ton tanker for the account of the Standard Shipping Co., of New York, a subsidiary of the Standard Oil Co. of New Jersey. This is the third tanker built for Standard since 1929.

Rome is negotiating with the governments of France, Germany, and Spain for new trade arrangements. International trade barriers are becoming impossible. The multitude of disagreeable French import quotas, many of which hit Italian exports, has called forth retaliatory measures from Italy. Rome has legislated these measures in self defense, is making aggressive efforts to reach constructive trade agreements.

Great Britain

Business cheered by reduction in bank rate, prospective removal of exchange restrictions, prospect of improved bargaining position abroad under tariffs. . . . Growing concern over Far Eastern developments. . . . Fresh urge to form "sterling group."

LONDON (*Cable*)—Reduction of the rediscount rate by a full 1% instead of the usual ½% is already having a stimulating effect on industry, has encouraged more extensive trading in giltedgeds, and is generally being accepted as an official confession that Britain's actual financial crisis has ended. Exchange restrictions will be removed any day, and this is expected to augment already growing optimism. The Bank of England and the Treasury evidently regard the unfavorable balance of trade as less menacing than they did previously.

In addition to this week's drop in the discount rate, the City confidently expects a further drop soon.

Tariffs are still a center of attention with focal points of public interest now (1) in the naming of the members of the tariff committee, which will have far greater powers than any body yet set up outside Parliament, and (2) in the bargaining negotiations at Ottawa in July, with whatever preliminary dickering may become public and indicate the trend the conference will take.

When France levied a surtax on British coal, there was a cry of discrimination, and London promptly resorted to new tariff policies to find a means of suitable retaliation. When the French surtax was removed this week, Britain's protectionists boasted the decision as the first fruits of the tariff reciprocity scheme, but coal owners gloomily prophesied that little can be gained till the present quota scheme is abandoned. The whole problem of quotas is coming to be more of a menace to trade than actual tariffs, though they are not yet fully understood by the general public.

Possible "Sterling Group"

The growing group of protagonists of a "sterling currency group" of nations whose currencies have always more or less been governed by sterling and which recently have followed sterling off gold, crowed this week when Scandinavian central banks followed London in lowering the discount. It is the intention of these enthusiasts now to press the present as the time for the British to go forward with the idea. Bank rates are down and exchange restrictions about to be lifted, indicating the end of the crisis. They would have Britain, backed by tariffs, take the initiative to start such a group at once with the idea of coordinating it and bringing the pound back to a gold basis simultaneously.

Investors continue to show increased interest in the stock market but the volume of incoming credit is as yet small. Obviously conflicting trends on the Continental markets are causing a certain amount of speculative uncertainty. Giltedged industrials, however, are proving attractive due, probably, to the fact they are expected to respond first to tariff protection, and in some cases, to any prolonged unsettlement in the Far East.

Shanghai Worries London

London is becoming increasingly concerned over hostilities at Shanghai. Not a few authorities are speculating on the effect treaty commitments may have on Britain. Opinion quite widely favors the prospect of joint action by Britain and America, in cooperation with the League, in bringing economic pressure to bear on Tokyo. The public is definitely "anti-war," but it is suspected that certain statesmen are ready to approve hostilities because they see in this move one way of postponing the "yellow threat" to Pacific dominions, and at that time the transfer of Canada and Australia from the empire to a "Pan American white group" to combat the threat. It is their contention that a Sino-Japanese war now would so completely exhaust both powers that it would greatly retard further chauvinism. Business men are frankly baffled over the immediate outcome for Britain.

Latin America

Business slack. . . . Chile likely to abandon exchange control of peso. . . . Sugar at new low as Chadbourne plan again wavers.

ARGENTINA has returned to a constitutional government after more than a year under a provisional military régime, Costa Rica has terminated its revolution, but business throughout Latin America remains dull.

Two economic developments are outstanding. It is learned from Chile that the government is considering a law which, if adopted, will abolish restrictions on the value of the peso and either leave it to seek its own level on the market, or set an official lower value.

Since October, Chile has been keeping the peso at its par value by controlling exchange, but officially it has abstained from referring to the fact that the country is not on the gold standard, and that peso notes have been inconvertible on account of the restrictions. The necessity of renouncing the par value is emphasized because the value in circulation at present is less than half the par value. If official valuation is agreed upon, there is talk of both 12 and 16 pesos to the dollar rates in place of the present nominal par of 8 to the dollar.

The second development is the new low to which sugar prices fell this week on rumors that Cuba and Java have been unable to agree on any immediate curtailment plan. Cuba is definitely disgusted, and ready to abandon the plan. Java may yet "come around" to the demands for 1932 curtailment but so long as there is uncertainty the price of sugar seems unable to rise above 1¢.

Far East

Less favorable business prospects. . . . Increasing tenseness at Shanghai overclouds serious economic conditions. . . . Japan's foreign trade due for further cuts. . . . Philippine conditions dull.

JAPAN'S temporary military reverses in the Far East, and the increasingly delicate situation on both sides, makes the whole prospect in the Far East—both political and economic—more unfavorable.

Business at Shanghai is not at a standstill but the volume is seriously curtailed, with its effects felt throughout the Yangtze valley. In the Tientsin-

Industry Turns to Electricity and Gas

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Peiping area, there is the lack of buying of Japanese goods but otherwise business is moving more or less normally.

What business effects Japan's hurry-up move to set up a new "independent" government in Manchuria will have, cannot yet be determined. If the present promise from Nanking to send troops into Manchuria is more than a threat encouraged by recent moral victories at Shanghai and more outspoken world disfavor of Japan's policy, there is real danger of further curtailment. If the "new government" stands, and is actively supported by Tokyo, there will be a prompt pickup of business activity.

Possible Coalition at Tokyo

At home the Japanese situation is bad. In the elections the Seiyukai, or government, party carried a good majority, but the unfavorable reports from the Shanghai front, plus the mounting realization that Japan is now involved in a major crisis with world favor turning against her, has prompted rumors that the Seiyukai will ask for a Coalition cabinet in order to have maximum national backing for policies as they are made. If this plan is carried out, it is probable that former Premier Wakatsuki will be one of the important members of the opposition to be drafted into the Coalition cabinet.

Yen fluctuations are affecting foreign trade. From Europe it is rumored that various countries are planning action to apply to Japanese imports a supplementary exchange tax, in addition to ordinary tariff rates, to compensate for depreciation of the yen. This rule has been applied in some cases by gold standard countries against neighbors off the gold standard. If adopted by France, as rumored, and Holland, it will be primarily to protect their important Far Eastern colonies, both of which are important export markets for Japan. Added to the Chinese boycott, it will put a serious crimp in Japan's dwindling foreign trade, will threaten further unemployment at home, and will reduce sadly-needed government revenues.

Philippines in Doldrums

In the Philippines there has been some improvement in contracts for future deliveries of imported goods, especially American textiles, but business in general and financial conditions remain dull. The release of funds for public works has benefited the unemployment situation. Building permits in Manila, however, show a sharp decline compared with a year ago, and government revenue for the municipality of Manila in January was 30% below the corresponding month last year.

The Figures of the Week And What They Mean

While construction activity in the first half of February was better than expected, other lines of industrial and trade activity continue to lag. . . . Steel operations are slowly declining as Ford and other motor manufacturers delay their orders. . . . Efforts to restore steel prices to pre-concession levels await the test of any tempting business. . . . Electric power production also feels the lull of industrial activity. . . . Carloadings fluctuate with coal production and shipments, and have turned downward. . . . Currency outstanding is slowly declining. . . . Reports on January employment, payrolls, and wholesale prices give ample testimony to the continuing deflation.

THE story of steel in recent weeks is one of continued disappointment. Dow, Jones reports another slight decline in the operating rate that eliminates the minor recovery of the past few weeks and puts activity back to the early January level. The adjusted index also declined to 34% of normal compared with 35% the preceding week of Feb. 15.

Again the extreme cautiousness of automotive producers has thwarted expectations for an early and sharp pickup in steel activity. The announcement of the Ford models is said to have seriously stunted sales of cars in the low price group. Even Mr. Ford is apparently biding his time in the placing of steel requirements, and other motor manufacturers are following suit. Some venture to suggest that Ford may be attempting to hold off his much sought business in protest to the effort of sheet steel producers to re-establish prices on a more profitable level to themselves.

Leading producers of steel bars, plates, and shapes have recently joined the sheet manufacturers in renewed attempts to eliminate the price concessions that became rampant in the past months. Hence the price "increase" is virtually a reestablishment of prices that prevailed before the demoralization of the market.

A number of railroads have placed small tonnages and others are reported in the market. Trade papers acknowledge the meagerness of these orders, but seize upon them as signs of some improvement over the past year.

Construction Better

The picture of construction activity given last week based upon returns from 6 out of the 13 territories reported by Dodge was considerably more gloomy than the full returns for the 37 states convey. In the Chicago, New Orleans, and Texas divisions, the volume of contracts awarded in the first 12 business days of February was actually greater than the entire month of January, 1932. In the Chicago area, the volume of public works awarded in this period is almost twice as large as the whole month of January. In the other 2 territories mentioned the volume of non-residential contracts was overwhelmingly greater than in the preceding month. In the Kansas City district, public works are already exceeding the January total.

The value of contracts awarded in the 37 states through Feb. 15 aggregated $55,028,500, which on a daily basis

THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	*Latest Week*	*Preceding Week*	*Year Ago*	*Five-Year Average (1927-1931)*
	*59.3	†60.5	78.3	.....
PRODUCTION				
Steel Ingot Operation (% of capacity)	25	26	52	78
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$3,594	$3,418	$8,954	$13,697
Bituminous Coal (daily average, 1,000 tons)	*1,104	1,208	1,369	1,780
Electric Power (millions K.W.H.)	1,545	1,579	1,680	1,622
TRADE				
Total Carloadings (daily average, 1,000 cars)	94	96	120	147
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	62	61	76	92
Check Payments (outside N. Y. City, millions)	$3,122	$2,950	$4,309	$5,413
Money in Circulation (daily average, millions)	$5,627	$5,642	$4,590	$4,681
PRICES (*Average for the Week*)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.54	$.52	$.69	$1.14
Cotton (middling, New York, lb.)	$.070	$.069	$.112	$.159
Iron and Steel (STEEL composite, ton)	$29.53	$29.57	$31.61	$35.12
Copper (electrolytic, f.o.b. refinery, lb.)	$.060	$.059	$.100	$.145
All Commodities (Fisher's Index, 1926=100)	63.7	63.6	75.8	91.4
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	$1,790	$1,803	$925	$1,172
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$19,731	$19,785	$22,650	$21,550
Commercial Loans, Federal Reserve reporting member banks (millions)	$7,217	$7,212	$8,169	$8,593
Security Loans, Federal Reserve reporting member banks (millions)	$5,474	$5,504	$7,325	$6,951
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	$489	$499	$1,798	$3,456
Stock Prices (average 100 stocks, Herald-Tribune)	$92.77	$92.69	$142.11	$153.21
Bond Prices (Dow, Jones, average 40 bonds)	$79.57	$78.76	$96.33	$96.26
Interest Rates—Call Loans (daily average, renewal)	2.5%	2.5%	1.5%	4.2%
Interest Rates—Prime Commercial Paper (4-6 months)	3¾–4%	3¾–4%	2½–2¾%	4.2%
Business Failures (Dun, number)	751	693	722	537

*Preliminary †Revised

equals an increase of 35% over the January average, but a 57% decrease from February, 1931. This substantial gain over the low totals of the preceding month was largely due to improvement in non-residential and public works and utilities projects. The latter, with a total of $20,506,600, made a 78% gain over the January average, but are 52% under a year ago. In 12 days, however, the value of public works contracts have equaled 85% of the total January, 1932, awards for this group.

Non-Residential Contracts

Non-residential contracts of $21,857,800 were again the most important group as to value, and bettered the January daily average by 37%. Compared with February of last year, a 49% loss is reported. Residential construction is still lagging. Only $12,664,100 of contracts have been booked as yet in February and this is 4% under the meager January average, and 70% under last year.

The adjusted index of building activity for the week of Feb. 5 remained at 25% of normal, while the following week of Feb. 12 showed an increase to 26%.

The drop in production of both anthracite and bituminous coal during the week of Feb. 13 brings the output back to the mid-January level after a week of stimulated activity. The adjusted index of bituminous declined to 52% of normal compared with 55% the preceding week. The index of employment of anthracite workers declined 5% in January, while wage payments fell 23%, leaving these indexes at the lowest point for the month of the past 11 years. Commercial stocks of bituminous coal were the lowest for any corresponding date in the past decade.

Electric power production continues to decline and in the week of Feb. 20 fell below the 1928 level. Our adjusted index moved to 75% of normal compared with 76% the preceding week. The decline is particularly severe in the central industrial region where a 12% drop from a year ago is reported. This region contains a large number of automotive producers whose renewed curtailment programs are influential factors in the decreased use of electric power.

The decline in carloadings during the week of Feb. 13, as the gain of the preceding week, followed the production and shipment of coal. All classification except coal, coke, livestock, and merchandise less than carlot showed gains. The latter plus miscellaneous freight upon which our index is based made less than the expected seasonal gain, forcing our index down one point to 59% of normal.

The slight increase of less than 6% in check payments for the week of Feb. 17 was not sufficient to offset the 17% decline of the preceding week. Our adjusted index based on the average of the past 2 weeks declined to 65% of normal.

Currency in Circulation

The daily average volume of currency circulation for the week ending Feb. 20 continues to decline slowly, but encouragingly. The Federal Reserve Board reports that January saw the closing of 334 banks involving deposits of over $275 millions. The states of Illinois, Indiana, and Iowa revealed the worst conditions with 115 closings. Since January, the *American Banker* reports fewer bank failures.

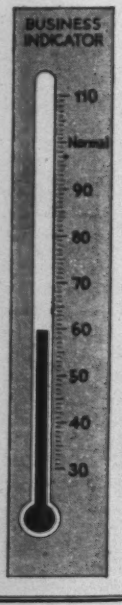
Commercial loans increased by $5 millions during the week of Feb. 17, but this was not enough to offset seasonal factors and the slight increase in the price deflator. Our adjusted index stands at 14% above normal, one point lower than the preceding week.

Business failures as reported by Dun's have shot upward again after declining the 3 preceding weeks. However, comparable weeks in past years have shown similar trends, so that the increase is not necessarily indicative of any new conditions.

Commodity Prices

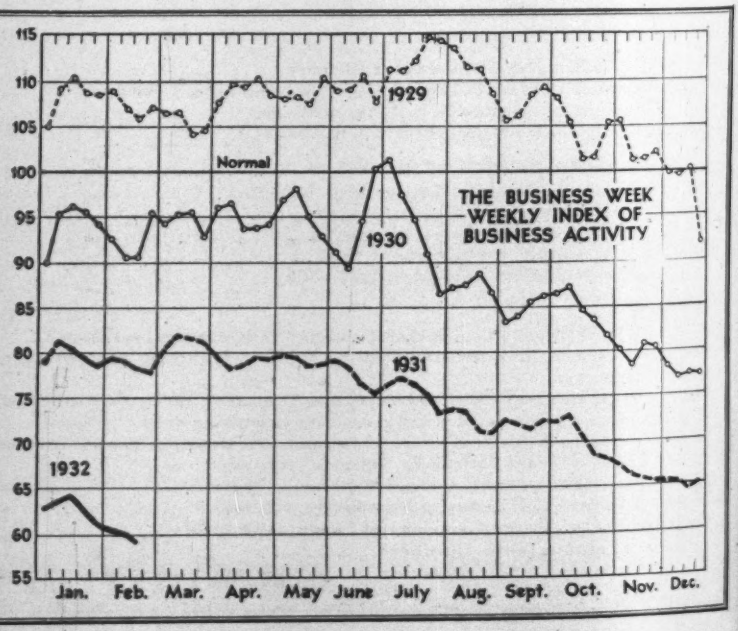
Commodity prices continue to fluctuate irregularly with each turn in news or sentiment. New all time lows were made this week by silk, sugar, and rubber. Cotton has moved upward, with the spot middling at New York passing the 7¢ a pound mark for the first time since the close of August, 1931. Wheat prices have moved irregularly since the high point of Feb. 17.

Th non-ferrous metal markets turned dull. Copper prices lost ground. Another conference with Belgian interests is in process relative to the curtailment agreement, and the usual divergent conflicts of opinion are being aired. Lead prices broke at St. Louis, while the New York quotation remains unchanged. Zinc prices were steady with trade at a very low level. Silver touched a new high for the year at 31¢ an ounce.



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



Trends of the Markets In Money, Stocks, Bonds

Freed of obstacles by the Glass-Steagall measure, the Reserve System openly enlisted in the anti-deflation fight. . . . Easier money thus is added to the forces already at work. . . . The continued bond price rise is an encouraging symptom of a concrete nature. . . . Stock prices hesitated, seeing business and earnings still bad.

Rate Cut Throws Reserve Into Fight on Deflation

By reducing its discount rate at New York from 3½% to 3% this week the Federal Reserve system definitely joined the administration's campaign to stimulate business by counteracting deflation. The move means that lower money rates are now added to the Administration effort, for other money rates almost invariably go along with the Reserve's discount rate.

The System was able to make the move after it had been freed of obstacles by the Glass–Steagall bill, which greatly increased its free gold. The discount rate reduction is the second step by the System, and the more definite, having been forecast by its reduction of the bill buying rate in January (*BW—Jan20'32*).

The week also saw further development of the anti-hoarding campaign. Baby bonds in denominations of $50, $100, and $500 will be issued beginning Mar. 7 for one year in an effort to coax money out of mattresses. The interest rate is yet to be determined, but will be low.

Whether the campaign is responsible or not (and there is censure along with the praise) hoarding declined again this week. Currency was down $17 millions as of Wednesday night, a drop which, though small, was more than seasonal.

The other Administration measures also are beginning to work. Latest available figures show that the Reconstruction Finance Corp. has advanced $24.4 millions, and that the Federal Land Banks already are using $46 millions of the $125 millions given them for relief and expansion purposes.

Reserve's Next Move

Briefly, the fight is on against depression, a fight which is being pressed by financial forces. The biggest remaining question is whether the Reserve banks will reinforce the attack by the use of open market operations in an effort to force the banks to expand credit. There were no signs this week, but such action is widely expected. The Reserve figures for the week showed nothing of significance other than a reduction in Reserve credit and a further decline in member bank reserves. The latter is unfortunate, pointing to further deflation.

The gold outflow this week dropped to small proportions, foreigners apparently being satisfied—at least, for the present. The dollar generally appreciated in terms of other units. The reduction in member bank credit also was lower.

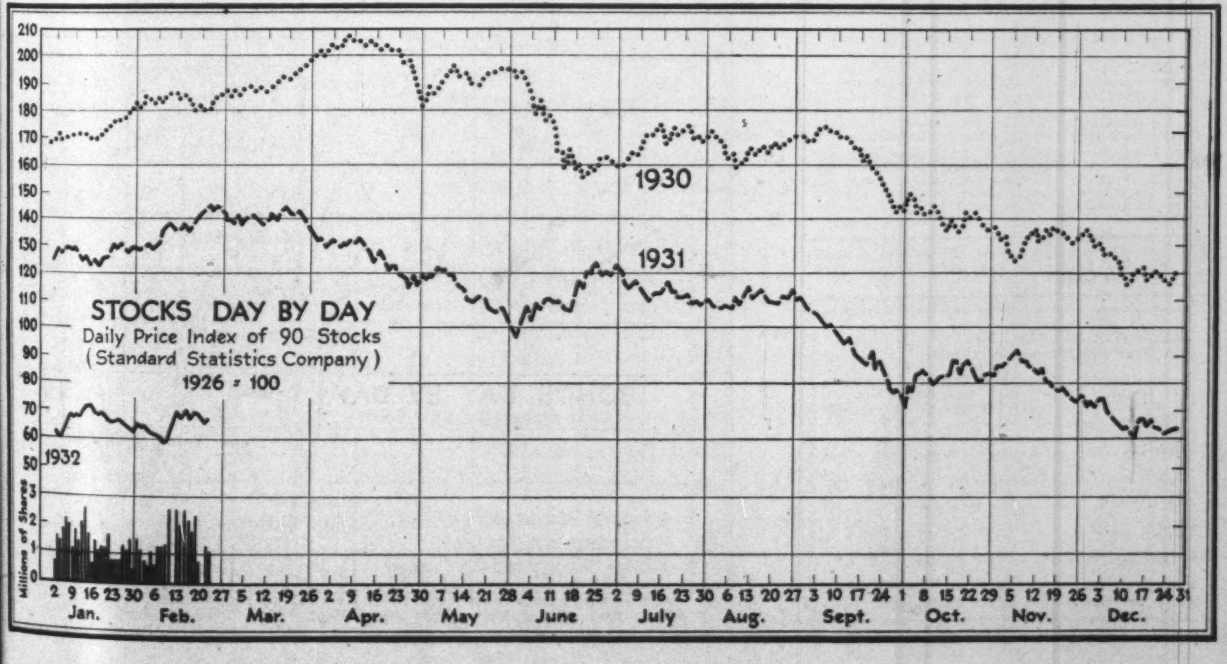
Industrials Hold Up Against Wall St. Doubt

The stock market spent the week rehearsing the rôles of doubting Thomas and the man from Missouri, reflecting the aggregate mind of speculators and the watchfully waiting investor.

The majority simply are not yet willing to put money on the future, though a more hopeful feeling is reported. The extra day of contemplation afforded by the Washington's Birthday holiday, however, did not firm that hope into conviction. After a few brief days—all too brief from the standpoint of brokers—in which the public came into the market on some scale, trading volume dropped to the professional level.

Prices as measured by the Standard Statistics index of 90 representative stocks shown on this page declined for the week. The decline came after repeated unsuccessful testing of the year's high ground.

But the situation in Wall Street is much more diverse than an index can show. In fact diversity or selectivity has



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in recent days become a marked aspect of the market. Industrial stock price averages made a tiny fractional gain for the week. The decline in the index was due entirely to weakness in the railroad and utility issues. The former suffered more severely than the latter. Within the industrial classification, chemical, motor, food and copper stocks revealed outstanding strength.

The hesitancy shown by the market as a whole simply results from the lack of signs of better business as yet and the absence of conviction that these soon will appear. Meantime, little doubt exists that first-quarter earnings are bad; in all probability they are worse in the aggregate than a year ago. The more pessimistic expect this unfavorable comparison to carry over into the second quarter and feel that such a situation simply does not justify a major improvement in stock prices.

Chief hopes for improvement are, of course, based on the potency of the relief forces which Washington has assembled. These are now being tested and the market will continue to pass judgment on them. Meanwhile, rumor persists that the Administration is pregnant with another idea designed to stimulate business.

Bond Rise Suggests History Is Repeating

THE continued firmness and strength in bond prices is one of the few definitely encouraging factors in the financial field. With the exception of the spectacular rally in government securities the market's progress was less rapid this week than last, yet recovery proceeded.

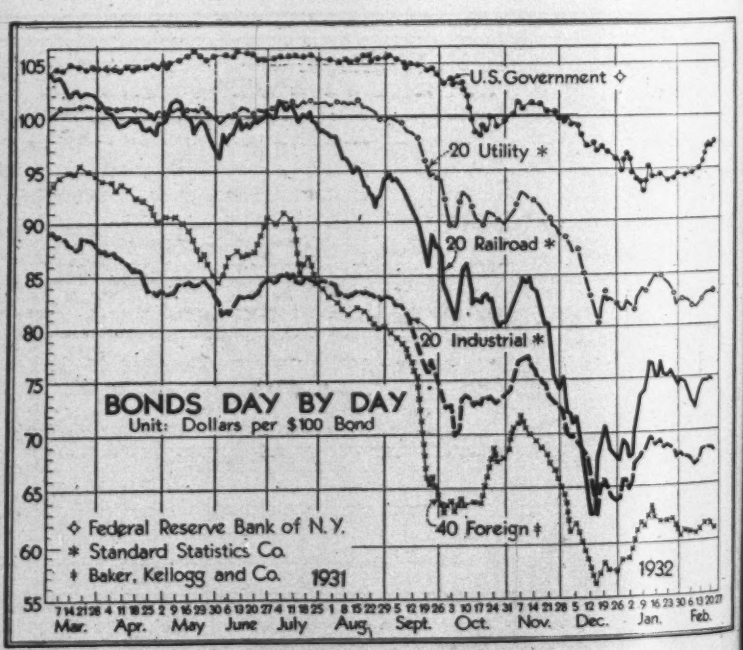
Present bond prices, of course, leave much to be desired. They still are low, so low as to make many institutions insolvent—if assets were valued at market prices. But the recovery has been steady. The Dow, Jones average of 40 bonds, for instance, has risen for 11 consecutive days.

Have Pointed Way Before

Rising bond prices in the past have pointed the way to business recovery. One of the most prominent of the old masters of Wall Street has said repeatedly to inquiries about business that the bond market is and will be the key to improvement. It was in the 80's, in the 90's, and in the successive slumps of this century 1903-4, 1907-8, 1921.

The present rise is not yet an assurance that there is a movement on comparable to the ones that led the way out in those years. Those were measured in months, the present one is still told in days. But the trend is favorable.

And the demand seems to be coming from individual investors. It is they who have been sending up prices since Washington's moves have lifted the pressure of necessitous liquidation. The banks have not yet been buying, the mutual savings banks have increased their investments by only a tiny amount since the first of the year. A little buying may have come from the insurance companies, but the rise seems to be resulting mainly from individual purchases.



Wide Reading

THE PRESIDENT. Walter Mills. *Atlantic*, March. In defence of Hoover, but not without admitting certain faults.

SIGNIFICANT CHANGES IN AMERICAN POPULATION GROWTH. Henry Pratt Fairchild. *Current History*, February. Changes in the age distribution in population; in the proportion of the non-white population; in the proportion of the gainfully employed. Of value to executives responsible for distribution, or to those catering to mass tastes.

OWN YOUR OWN HOME? Frederick H. Ecker. *Review of Reviews*, February. Some of the views, sane and conservative, set forth recently by the Finance Committee of the President's Conference on Home Building and Home Ownership.

INDUSTRIAL GUARANTEE AND RELIEF PLANS. *Industrial Relations*, January. Summary of characteristics, coverage, benefits paid, cost, and experience of 42 company-sponsored employment guarantee and benefit plans (all there are in the U. S.) covering 150,000 employees.

FACING REALITIES IN SLUM CLEARANCE. Arthur Holden. *Architectural Record*, February. Work which must be done to clear the way for the formation of vast realty trusts which alone are capable of rebuilding large slum areas. More of the constructive thinking which has been spurred by the President's Committee on Home Building and Home Ownership.

GOLD MUST EARN ITS KEEP. Joseph Stagg Lawrence. *World's Work*, February. Proposes some of the plans recently legislated at Washington to free unused gold; explains why it is a wise move, what it can accomplish, and how.

THE EVOLUTION OF STEAM RAILROAD ELECTRIFICATION. Myles E. Robinson. *Journal of Land & Public Utility Economics*, February. Complete analysis of extensive electrification developments in Europe; suggestions for further extension in the U. S.

THE COMMUNIST MOVEMENT IN JAPAN. Hugh Byas. *Contemporary Review* (London), February. It is a factor in the general unrest in centers like Tokyo but it is not likely to spread rapidly. The Fascist idea is incomparably more congenial to the Japanese mind.

FRUIT: A PAGEANT OF DESTRUCTION. *Fortune*, February. From orchard to consumer, the story of the fruit and canning industries.

BOOKS

RECENT TRENDS IN AMERICAN HOUSING. Edith Elmer Wood. Macmillan, 317 pp., $3. A sequel to "The Housing of the Unskilled Wage Earner" bringing up to date the more recent efforts and problems connected with providing adequate housing for the family with small income. Frequently quoted since the President's Conference on Home Building and Home Ownership.

CONSUMER ENGINEERING. Roy Sheldon and Edmont Arens. Harper, 259 pp., $3.50. What designers and stylists have done to business; how they do it. From bathtubs to women's cosmetics, they have tried their hand. Results are startling, profitable.

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THE BUSINESS WEEK

The Journal of Business News and Interpretation

March 2, 1932

Only an Armistice

FOR two years this journal has waged a solo war against the delusion of deflation forced on the productive community by the policies and philosophy of our financial system. We repeatedly demanded reversal of those policies by appropriate expansion of the powers of the Federal Reserve system, and insisted that restoration of pre-depression price levels was indispensable to avoid universal debt default and destruction of capital claims.

Step by step since Britain abandoned the gold standard last September we have seen the advocates of bitter-end deflation surrender to the superior strength of inescapable facts. When the banks suddenly discovered themselves as much debtors to their depositors as creditors to their customers, they found that deflation was a double-edged sword. Creditors everywhere have been driven into the same ditch with their debtors. Both have been compelled to recognize that dollar debts cannot be paid with fifty-cent incomes, and that it is extortion to try to collect them and impossible to expect anyone to pay them.

So today the deflation philosophy stands officially repudiated, and the Administration offers daily prayers that it may find some effective financial stimulant to offset the consequences of uncontrolled liquidation before next summer. By a scratch of the pen new gold mines are suddenly discovered in the vaults of the Federal Reserve banks, unrevealed reservoirs of credit opened to support the security market and provide the raw material from which the commercial banks may manufacture more money to replace that which so mysteriously disappeared during the deflation. As Amos and Andy might say, "reflation" is the order of the day—if the order can only be executed.

Millions of men in the street (no mere figure of speech any more) may wonder why all this was not done long ago, before so many last shirts of American business and labor were lost, and when it was much easier to do. But the time is past for post-mortems on the stupidities that have been perpetrated in the name of deflation, "equilibrium," and "readjustment."

We join in the prayers that the emergency measures taken may compensate in part for them; we can properly rejoice with some pride in the belated victory of official insight over the blind folly of the deflation fanatics. But we do not deceive ourselves, and appeal to the productive interests of American business not to deceive themselves, into the easy assumption that the fundamental forces of deflation will be defeated merely by these financial devices or this desperate profession of official faith. They are too deep-seated in our banking, investment, speculative system to be so easily overcome.

Deflation is an idea and an attitude. It lingers on in the easy stimulation and acceptance of spurious stock-market activity, in specious preachments about public and private economy, in bromides about balanced budgets, in stupid price policies and competitive oppression, in outworn dogmas regarding wage readjustments and standards of living, in indifference to the agricultural problem, in infantile ideas about international relations. All these and many other offspring of the deadly doctrine of contraction and liquidation are still at large, and no stable basis for business progress will be established till they are destroyed.

The war is not over; the decisive battles are still to be won; the deflation philosophy is still entrenched in strongholds from which only a prolonged campaign of clarification and education can dislodge it. We must carry on until the field is clear for real reconstruction and steady expansion.

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